FIRST 5 CALIFORNIA

First 5 California Children & Families Commission

Small Population County Funding Assessment Project

Small Population County Funding
Report of Findings

D R A F T

April 14, 2010

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AGENDA ITEM 15
DATE OF MEETING: April 21, 2010
ATTACHMENT A

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1. History of Small Population County Funding

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1. History of Small Population County Funding

In November 1998, California residents passed Proposition 10, the California Children and Families Act of 1998 (Act). Proposition 10 created a program to promote, support, and improve the early development of children from the prenatal stage, to five years of age, through community awareness, education, nurturing, child care, social services, health care, and research. Proposition 10 established a 50-cents, per pack, tax on California cigarettes, and an equivalent tax on California tobacco products to fund these programs.

The Act established a statewide commission, and county commissions, to administer the Act. The Act established that 20 percent of tobacco tax revenues be allocated to the statewide commission (referred to as First 5 California), and 80 percent be allocated to county commissions. The county funds were to be allocated based on the most recent birth rate data. **Table 1-1,** on the next page, provides the number and percent of births, by county, for 2008.

In order to receive funding, county commissions must establish, maintain, and implement a strategic plan, conduct public hearings to obtain input on plans and reports, and annually report on program activities to First 5 California. All fifty-eight (58) California counties have established county commissions and First 5 programs.

Section 130100 (a) of the California Health and Safety Code describes the intent of Proposition 10:

> *It is the intent of this act to facilitate the creation and implementation of an integrated, comprehensive, and collaborative system of information and services to enhance optimal early childhood development and ensure that children are ready to enter school. This system should function as a network that promotes accessibility to all information and services from any entry point into the system. It is further the intent of this act to emphasize local decision making, to provide for greater local flexibility in designing delivery systems, and to eliminate duplicate administrative systems.*

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1. History of Small Population County Funding *(continued)*

Table 1-1

California Births by County, 2008

County	Number	Percent
1. Alameda	20,972	3.80%
2. Alpine (1)	**13**	**0.0024%**
3. Amador (2)	**288**	**0.05%**
4. Butte	2,518	0.46%
5. Calaveras (3)	**373**	**0.07%**
6. Colusa (4)	**367**	**0.07%**
7. Contra Costa	13,136	2.38%
8. Del Norte (5)	**312**	**0.06%**
9. El Dorado	1,814	0.33%
10. Fresno	16,760	3.04%
11. Glenn (6)	**472**	**0.09%**
12. Humboldt	1,601	0.29%
13. Imperial	3,221	0.58%
14. Inyo (7)	**226**	**0.04%**
15. Kern	15,315	2.78%
16. Kings	2,710	0.49%
17. Lake	705	0.13%
18. Lassen (8)	**323**	**0.06%**
19. Los Angeles	147,684	26.78%
20. Madera	2,535	0.46%
21. Marin	2,716	0.49%
22. Mariposa (9)	**147**	**0.03%**
23. Mendocino	1,168	0.21%
24. Merced	4,423	0.80%
25. Modoc (10)	**92**	**0.02%**
26. Mono (11)	**175**	**0.03%**
27. Monterey	7,434	1.35%
28. Napa	1,671	0.30%
29. Nevada	871	0.16%
30. Orange	42,456	7.70%
31. Placer	4,035	0.73%
32. Plumas (12)	**175**	**0.03%**
33. Riverside	32,866	5.96%
34. Sacramento	21,389	3.88%
35. San Benito	816	0.15%
36. San Bernardino	33,788	6.13%
37. San Diego	46,742	8.47%
38. San Francisco	9,104	1.65%
39. San Joaquin	11,030	2.00%
40. San Luis Obispo	2,737	0.50%
41. San Mateo	9,765	1.77%
42. Santa Barbara	6,319	1.15%
43. Santa Clara	26,730	4.85%
44. Santa Cruz	3,538	0.64%
45. Shasta	2,186	0.40%
46. Sierra (13)	**22**	**0.004%**
47. Siskiyou (14)	**498**	**0.09%**
48. Solano	5,607	1.02%
49. Sonoma	5,761	1.04%
50. Stanislaus	8,549	1.55%
51. Sutter	1,468	0.27%
52. Tehama	790	0.14%
53. Trinity (15)	**126**	**0.02%**
54. Tulare	8,533	1.55%
55. Tuolumne (16)	**486**	**0.09%**
56. Ventura	12,076	2.19%
57. Yolo	2,669	0.48%
58. Yuba	1,264	0.23%
Total	**551,567**	**100.00%**

Counties are listed based on alphabetical order.
Sixteen (16) counties with birth rates less than or equal to 0.10% are in bold.

1. History of Small Population County Funding *(continued)*

Very early on, during implementation of Proposition 10, it became clear to First 5 California (Commission) that the statutory funding formula for counties did not provide adequate funds for low birth rate counties to operate effective First 5 programs. In order to ensure that Proposition 10 was truly a statewide effort, and to recognize the importance of implementing First 5 programs geographically across the state, the Commission provided additional funding to small population counties since the 1999/2000 fiscal year (FY).

Table 1-2, on page 6, provides a summary of the current small population county funding mechanisms. There are three (3) different funding mechanisms that have been implemented by First 5 California to support small population counties:

1. *A minimum $200,000 threshold*. This funding mechanism is based on the assumption that counties with very low birth rates will not receive enough tobacco tax revenues to operate an effective First 5 program. Any county that receives less than $200,000 per year as their portion of tobacco tax revenues will be made whole, up to $200,000. First 5 California distributes these funds in two payments: an initial payment of 80 percent of the estimated "make-up" payment, and a final payment of the remaining "make-up" contribution, at the end of the fiscal year. The birth rate payments are made monthly, on a pro rata basis. The total annual "make-up" payment to a county is equal to $200,000 minus their actual tobacco tax birth rate revenues. This funding approach was first implemented in FY 1999/2000, and it has been approved through FY 2010/2011. Eight (8) counties initially received the $200,000 minimum funds, and in FY 2008/2009, nine (9) counties received these funds.

1. History of Small Population County Funding *(continued)*

2. *A graduated payment for administration*. This funding mechanism is based on the assumption that First 5 administrative requirements for the Commission can cost approximately $125,000 per year, and that no county should pay more than five (5) percent of their total birth rate payments and make-up payments on administration. First 5 California provides funding to support administration, equal to the difference between $125,000 – [(5% x (projected birth rate payments + make-up payments)]. For the nine (9) smallest counties in 2008/09, the administrative payment was equal to $115,000 ($125,000 – (5% x $200,000) = $115,000). For a County with projected birth rate payments of $2 million, the administrative payment is equal to $25,000 ($125,000 – (5% x $2 million) = $25,000). Any county with projected birth rate payments of less than $2.5 million will receive an administrative payment. The graduated administrative payment was implemented in FY 2000/2001, and it has been approved through FY 2010/2011. In FY 2008/2009, thirty (30) counties received these administrative payments, ranging from $20,082 to $115,000.

3. *A rural travel allocation*. This funding mechanism is based on the assumption that staff in rural counties can incur additional travel costs due to their geographic isolation, and thus may require additional funding in order to participate in statewide meetings and training activities. The Commission approved an annual rural travel allocation of $7,575 per county, for twenty-seven (27) counties, beginning in the second half of FY 2000/2001. The Commission later authorized rural travel funds for all counties receiving the graduated administrative payment. The Commission reduced the rural travel allocation by fifty (50) percent, to $3,787 per county, in FY 2004/2005, and approved the payment through FY 2010/2011. However, counties did not receive rural travel funds in FY 2007/2008 and FY 2008/2009 due to lack of funds.[1]

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[1] In May 2002, the Commission voted that small population county funding should not exceed a total of $3.5 million per year (although in some years, funding did exceed this threshold). Small population county funding would have exceeded $3.5 million in FY 2007/2008 and FY 2008/2009, if First 5 had distributed rural travel allocations.

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1. History of Small Population County Funding *(continued)*

Table 1-2

Small Population County Funding – Three Current Mechanisms (all funding from First 5 California Unallocated Account)

Current Funding Mechanism	Intent	Years Implemented	Number of Eligible Counties	Eligibility Criteria	Formula	Approximate Current Annual Funding
1. A minimum $200,000 threshold	To ensure that small counties with low birth rates have enough funding to operate effective programs and to ensure a "statewide nature of the program"	FY 99/00 through FY 10/11 (12 years)	Eight (8) counties, through FY 07/08 Nine (9) counties in FY 08/09	Any county that receives less than $200K in annual birth rate payments will be made whole, up to $200K	If birthrate payments < $200K, then receive: $200K birthrate payments Funding is in two payments, 80% of expected payment at beginning of FY, and remainder of payment to reach $200K, at end of FY	$850,000
2. A graduated payment for administration	To ensure that small counties do not have to utilize more than five (5) percent of their tobacco tax revenues for administrative costs, estimated at $125,000 per year	FY 00/01 through FY 10/11 (11 years)	Twenty-nine (29) to thirty-one (31) counties per year	Counties with projected annual tobacco tax revenues of less than $2.5 million per year (i.e. counties for which 5 percent of projected tax revenues is less than $125,000)	$125,000 – (5% x projected payments) For counties receiving $200K minimum funding, the administrative payment is $115,000 [$125,000 – (5% x $200,000)]	$2.5 million to $2.7 million
3. A rural travel allocation (currently discontinued)	To ensure that rural small county staff can travel to Commission meetings and technical assistance workshops	January 2001 through FY 06/07 – when overall small county funding increased in FY 07/08 and 08/09, rural travel was discontinued (6 ½ years)	Twenty-five (25) counties through FY 03/04, then all counties eligible for graduated payment for administration in the following years	Counties eligible for graduated administration payment	$7,575 per FY for first 3 ½ years, then one-half that amount ($3,787) from FY 04/05 forward	$230,000 at $7,575 per county, then $115,000 at $3,787 per county

1. History of Small Population County Funding *(continued)*

The current small population county funding approach includes a "trigger" – a mechanism to ensure that the State is not providing funds to counties that have substantial uncommitted fund balances. The trigger allows counties to have uncommitted funds equal to, or below, the sum of their annual tobacco tax allocation (or $200,000, whichever is greater), plus the administrative augmentation from the previous year. This essentially allows counties to have one year of funding set aside, and still receive small population county funding. If a county's uncommitted fund balance is greater than allowed, their small population county funding is reduced, dollar-for-dollar, by that amount. The trigger has been applied to reduce small population county funding in several instances over the last few years.

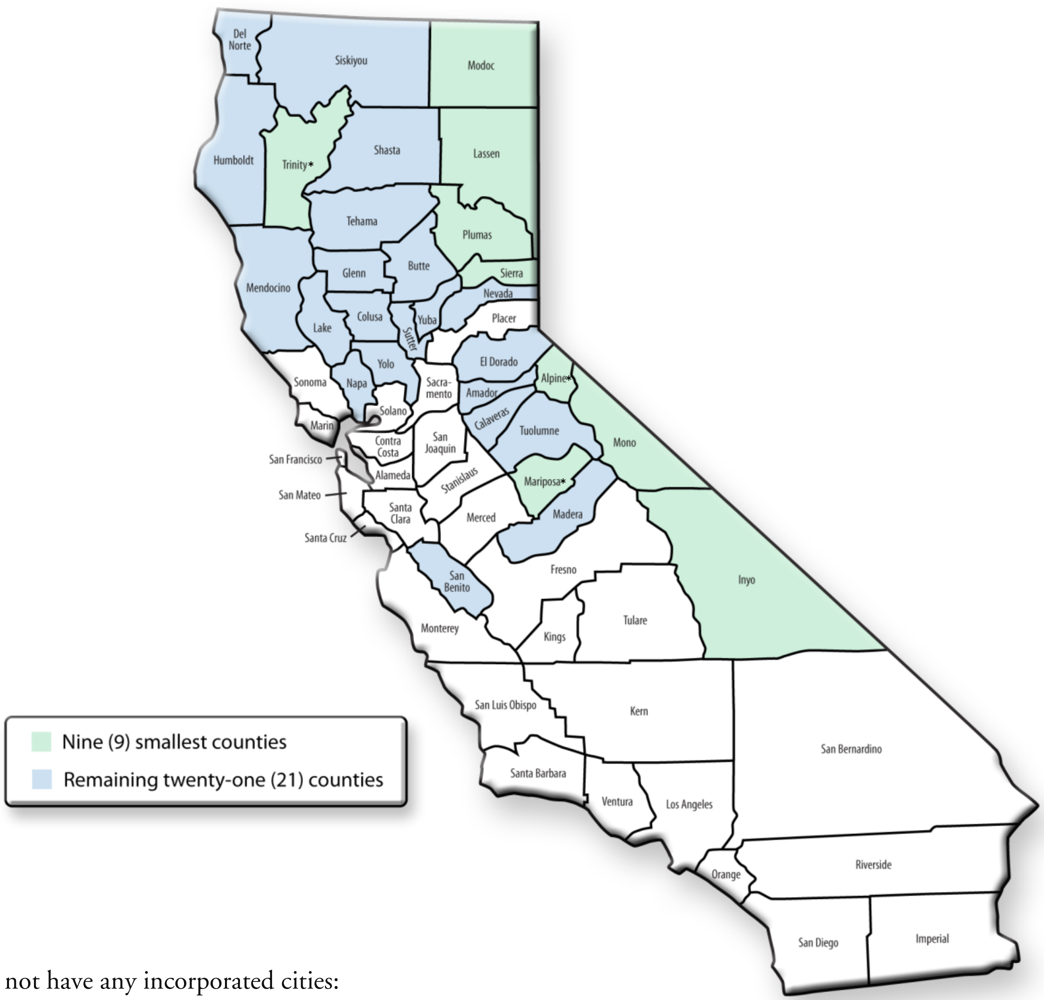
Exhibit 1-1, on the next page, illustrates the thirty (30) California small population counties in FY 2008/09. These small population counties are primarily located in Northern California, with some located in Central California.

Exhibit 1-2, on page 9, identifies the amount, and type, of funding received by each of the thirty (30) small population counties in FY 2008/09. The "Total Monthly" funding category refers to tobacco tax revenue (the 80 percent allocated to counties), and the "Other Programs" funding refers to specific program funding for counties from First 5 California. Exhibit 1-2 shows that for the smallest counties, a significant portion of their First 5 funding is through small population county funding. For example, in FY 2008/09, sixty-nine (69) percent of Alpine County's First 5 revenues was through small population county funding. At the other end of the spectrum, less than one (1) percent of Yolo County's First 5 revenue was through small population county funding.

1. History of Small Population County Funding *(continued)*

Exhibit 1-1

Thirty (30) Small Population Counties in Fiscal Year 2008/09



* Three (3) of the nine (9) smallest counties do not have any incorporated cities: Alpine County, Mariposa County, and Trinity County.

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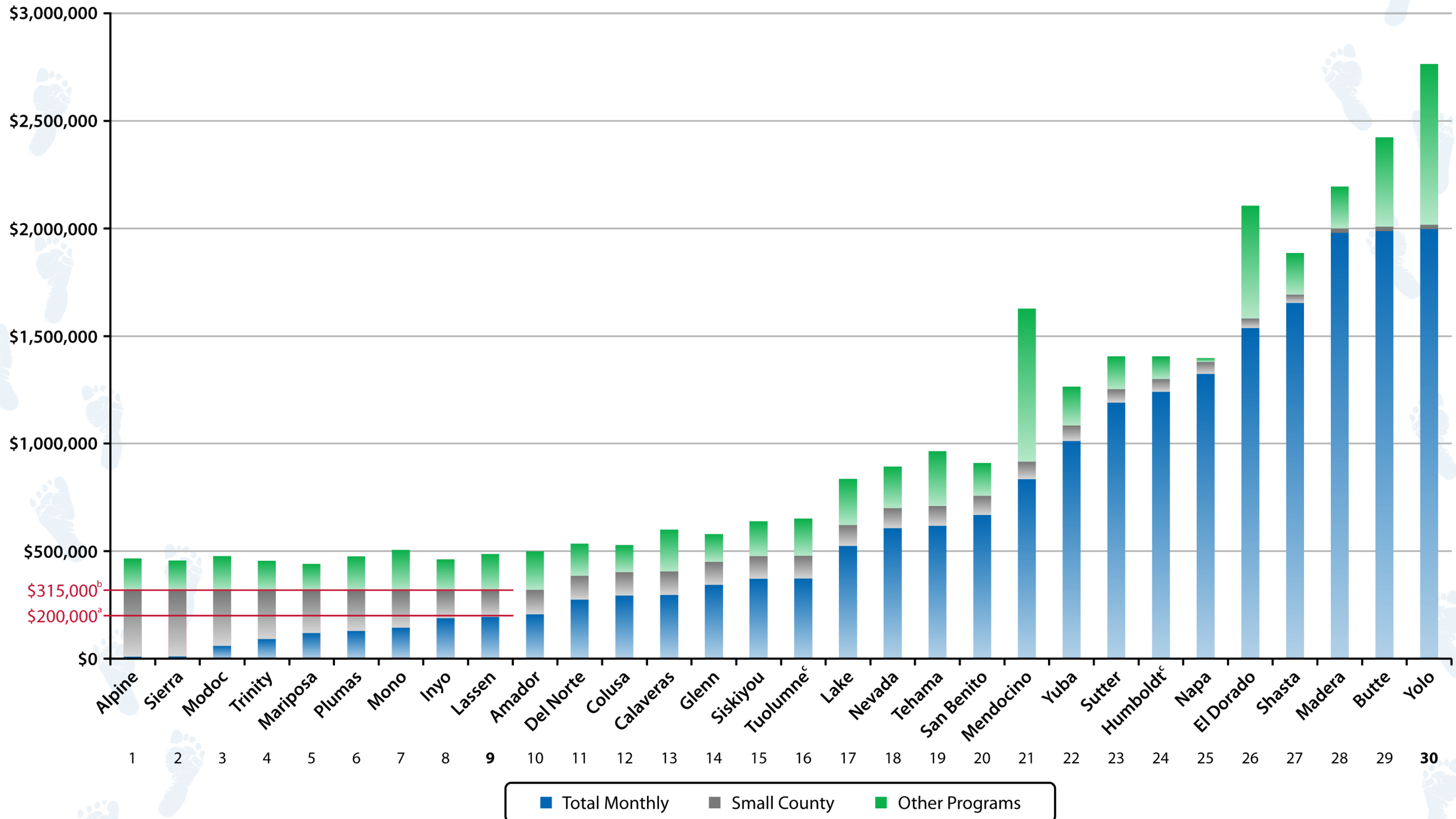
1. History of Small Population County Funding *(continued)*

Exhibit 1-2

Funding Distribution for Counties Receiving Small County Funding in Fiscal Year 2008/09



Counties are listed based on small county funding order.

[a] Minimum $200,000 funding threshold per county for nine (9) smallest counties

[b] Total small county and tobacco tax revenues for nine (9) smallest counties is $315,000 per county.

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1. History of Small Population County Funding *(continued)*

Total First 5 funding for small population counties has been relatively stable over the last nine (9) years, at approximately $3.5 million per year, as illustrated in **Exhibit 1-3,** on the next page.

Exhibit 1-4, on page 12, illustrates total annual county funding distributions, by type. “Total Monthly” represents the 80 percent county allocation of tobacco tax revenues, “Small County” represents small population county funding, and “Other Programs” represents funding distributed to counties by First 5 California for specific programs. In total, small population county funding is a small portion of total First 5 funding for counties.

Exhibit 1-5, on page 13, provides a schematic of small population county funding since inception of the Act. Each of the three (3) current funding mechanisms were introduced separately, and approved by the Commission for one year, to four year increments, over the course of the last ten years. While the Commission intended to develop a long-term statutory solution to the problem of small population county funding as early as 2001, no such solutions have evolved after years of discussion and evaluation.

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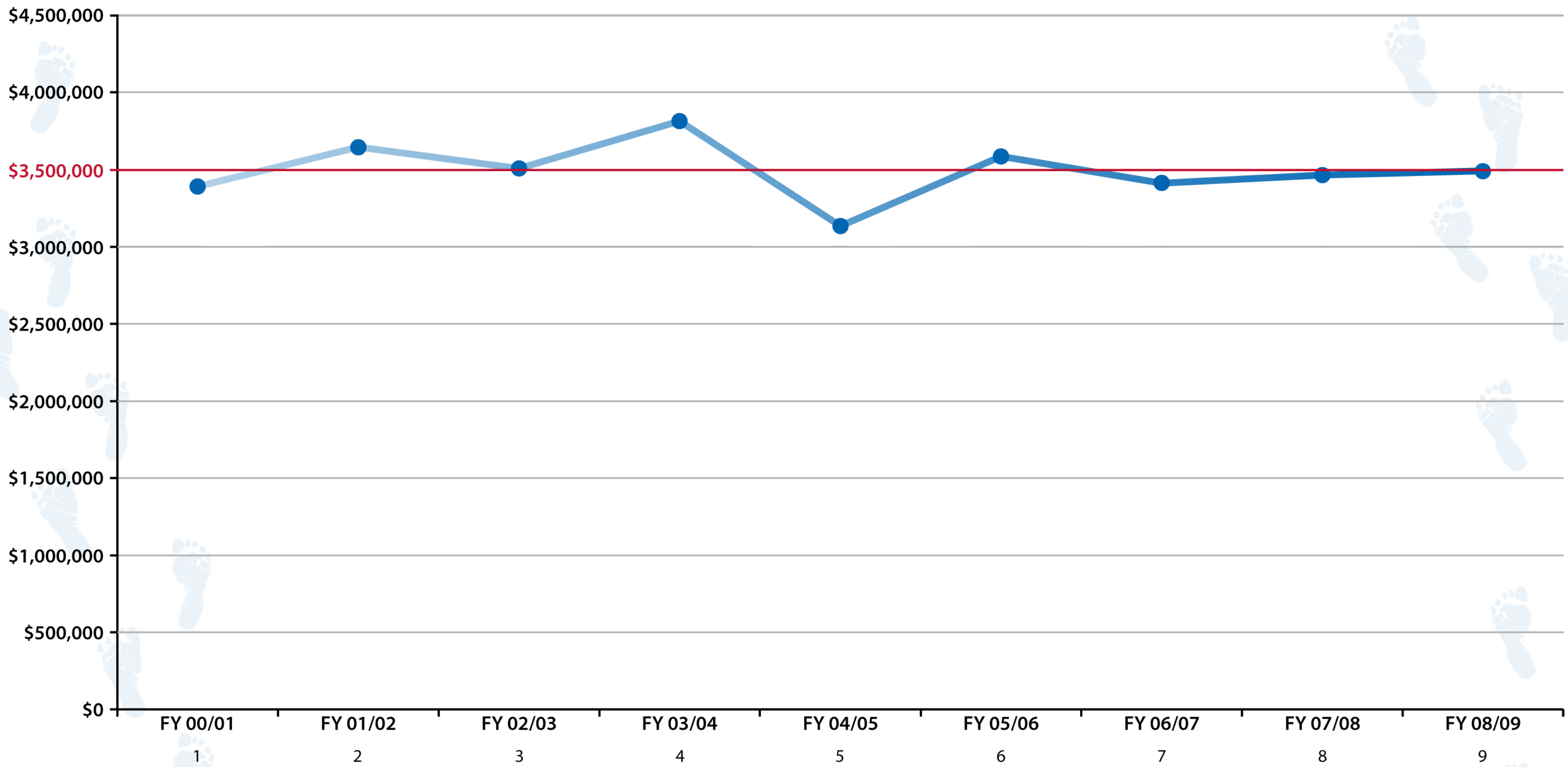
1. History of Small Population County Funding *(continued)*

Exhibit 1-3

Annual Total Small Population County Funding for Fiscal Year 2000/01 to Fiscal Year 2008/09



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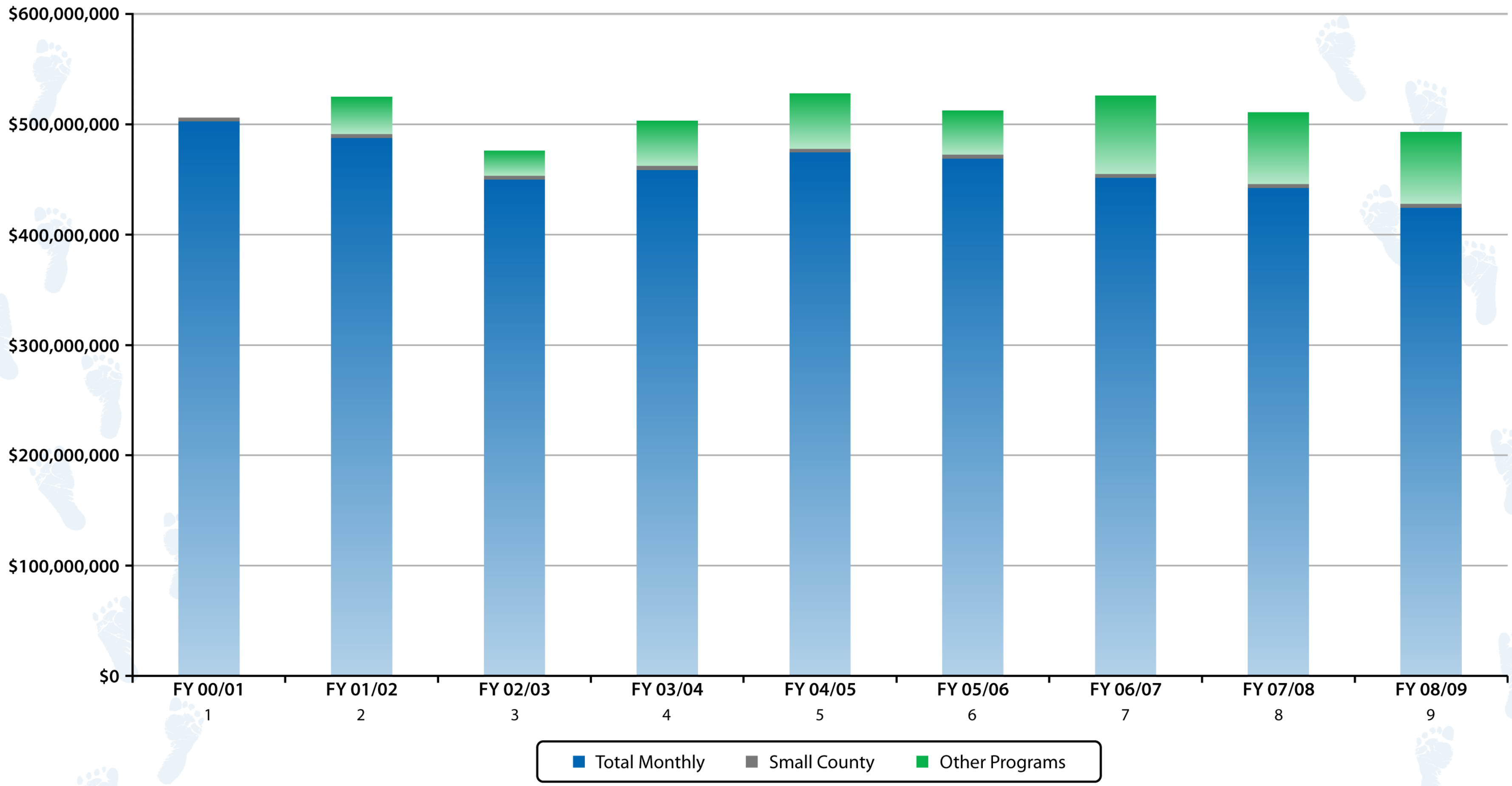
1. History of Small Population County Funding *(continued)*

Exhibit 1-4

Annual Funding Distributions to Counties, by Type, for Fiscal Year 2000/01 to Fiscal Year 2008/09



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1. History of Small Population County Funding *(continued)*

Exhibit 1-5

Commission Funding Decisions Related to Small Population County Funding Assessments

Action	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. November 1998 – Proposition 10 passed														
2. October 1999 – $200K minimum for eight (8) smallest counties		$200k minimum												
3. July 2000 – $200K minimum approved again			$200k minimum											
4. October 2000 – $2.5 million in administration augmentation ($125K) for two years			Admin - $2.5 million total, sliding scale											
5. January 2001 – rural travel costs for 18 months, $7,575 per year				Rural travel costs										
6. October 2001 – $200K minimum approved again				$200k minimum										
7. May 2002 – approved two (2) more years of all three funding provisions, maximum funding of $3.5 million					Admin - $2.5 million total, sliding scale Rural travel costs $200k minimum									
8. May 2004 – approved another four (4) years, with travel reduced by 50%, but with 20% of funding coming from 10 largest counties, $3.5 million max							Admin - $2.5 million total, sliding scale							
9. January 2007 – eliminated (retroactively) requirement for 20% large county funding due to logistical issues, established Workgroup							Rural travel costs (reduced by 50%) $200k minimum			(Rural dropped)				
10. November 2007 – approved another three (3) years of $3.5 max funding, with the same approach through 2010/11. Recommended hiring a consultant to identify a new funding model											Admin - $2.5 million total, sliding scale Rural travel costs (reduced by 50% - dropped due to lack of funds $200k minimum			

1. History of Small Population County Funding *(continued)*

Exhibit 1-6, on page 15, provides a timeline of small population county funding decisions and activities. The Commission first established a small population funding mechanism in October 1999. Since then, the Commission has continued to approve small population county funding, with the intent of establishing a more permanent solution.

In January 2007, the Commission established a Small Population County Workgroup (Workgroup) to develop a long-term solution. The Workgroup considered at least ten (10) different funding scenarios. These funding approaches were based on various assumptions about small population county administrative costs, expected contributions from the counties, and the expectation of a shared funding solution. Many of these proposals were costly and complex, and the Workgroup never agreed on a specific funding approach.

After almost one year of meetings, the Workgroup was unable to agree on a single funding approach. At the end of 2007, with no consensus on a solution to small population county funding, the Commission approved the status quo funding approach through FY 2010/2011.

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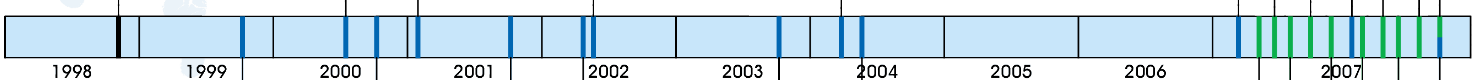
1. History of Small Population County Funding *(continued)*

Exhibit 1-6
Actions Related to Small Population County Funding



November 1998
Proposition 10 passed

October 21, 1999
Approved guaranteed $200K minimum for 8 smallest counties for FY 99/00

July 20, 2000
Approved guaranteed $200K minimum for 8 smallest counties for FY00/01

October 19, 2000
Approved $2.5 million maximum for administration for 31 counties for FY 00/01 and 01/02, equal to ($125K) - (5% x projected payments)

January 18, 2001
Approved rural travel allocation for 27 counties for one-half of FY 00/01 and all of FY 01/02, equal to $7,575 for full year

October 18, 2001
Approved guaranteed $200K minimum for 8 smallest counties for FY 01/02; asked staff to work on a more comprehensive solution for small counties

April 18, 2002
Informational presentation on rural county needs and problems, staff recommendation

May 16, 2002
Approved $2.738 million maximum for administration and rural travel for 31 counties, and $200K for 8 smallest counties, for FY 02/03 and 03/04; total not to exceed $3.5 million

October 16, 2003
Informational presentation from Association and staff on rural counties, recommended reducing travel funding by 50%, and continuing administration and $200K minimum; staff asked to develop more options

March 18, 2004
Informational presentation on staff recommendation to maintain $200K minimum, administration of $2.5 million maximum, and reduced travel funding, for $3.5 million total for four FYs, through FY 07/08; recommended that 20% of funding come from reducing School Readiness funding from largest 10 counties; recommended approval tied to review of a trigger for funding

May 20, 2004
Approved March 18 staff recommendation, including review of trigger

January 25, 2007
Approved elimination of large county funding for 20% of $3.5 million for small counties due to logistical challenges, retroactive to FY 04/05; recommended establishing Small Population County Workgroup (Workgroup) to develop long-term solutions

February 23, 2007
First Workgroup meeting; discussed intent, barriers, revenue sources, options

March 19, 2007
Second Workgroup meeting; discussed needs, research plans, estimates for minimum amounts, small county challenges

April 9, 2007
Third Workgroup meeting; agreed that small and large counties should contribute to minimum funding, proposed changes to funding formula with new minimum of $260,100 and varying percent contributions by counties

May 11, 2007
Fourth Workgroup meeting; discussed ideas for achieving middle ground, being unified, political strategies, use of SMIF, challenges faced by small counties

June 11, 2007
Fifth Workgroup meeting; agreed on 50/50 state/county revenue share of $3.5 million total, using SMIF to cover county share; discussed new funding model with 15% county contribution above $200k in revenue

July 19, 2007
Status report to Commission on Workgroup - agreed on shared funding strategy, that total shouldn't exceed existing $3.5 million maximum

July 30, 2007
Sixth Workgroup meeting; discussed reasons for and approach for trigger (i.e. if county has high unallocated funds, they don't receive allocation)

August 27, 2007
Seventh Workgroup meeting; discussed concerns, including need for flexibility, fund balances, trigger, need to focus on kids/programs

September 20, 2007
Workgroup expected to report to Commission in November

October 15, 2007
Eighth Workgroup meeting; discussed general acceptance of 2.5 multiplier for trigger of eligibility, several scenarios with different levels of small county funding, strategies for legislation (for SMIF)

November 15, 2007
Workgroup agreed on proposal for a 50:50 funding split between the State and counties, with counties using SMIF funds for their share – this would require legislation. The Workgroup could not agree on a model for funding

November 15, 2007
Approved staff recommendation to maintain the current approach for small county funding for FY 08/09, 09/10, and 10/11, and hire a contractor to develop a new allocation model

Blue text relates to Commission activities
Green text relates to Workgroup activities

2. Project Need and Challenges

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2. Project Need and Challenges

The need for a special funding mechanism for small counties has generally been accepted by the Commission, staff, and the Workgroup, based on two overlapping suppositions.[2]

- First, the statutory funding allocation approach for counties, based on the most recent birth rate data, does not provide sufficient funding for the smallest population counties to operate an effective First 5 program. Unlike many population-based funding mechanisms, the Act did not provide a baseline funding level for small population counties.
- Second, small population counties can face unique challenges as a result of their geographic isolation, inclement weather, and inadequate infrastructure (as it relates to services for the zero to five population).

For the above reasons, there is general agreement on the need to provide additional funding to small population counties to support effective First 5 programs. The status quo funding approach for small population counties has been maintained for nine (9) years, not because either First 5, or county commissions, are satisfied with this approach, but because there has never been agreement on a viable alternative. The objective of this small population county funding assessment project is to develop an equitable and sustainable funding mechanism for fiscal year 2011/2012, and beyond.

[2] In early program years, there had been concern that counties with lower tobacco tax revenues could spend a larger portion of their revenues on First 5 administrative requirements, thus the prior supplemental administrative funding. However, counties are not required to establish First 5 county commissions. Funding for First 5 county commissions is contingent on counties fulfilling several basic requirements, as defined in the Act. Because there is no mandate to establish First 5 county commissions, the State is not legally required to reimburse counties for administrative costs. There is no need, within small county funding, to provide a line item administrative funding guarantee, but counties should receive adequate revenues to cover both programs and administration, at their own discretion.

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2. Project Need and Challenges *(continued)*

In formulating new funding alternatives, it is valuable to examine issues and concerns regarding the status quo approach. There are numerous weaknesses with the current funding system:

- The three (3) status quo funding mechanisms are based on unsubstantiated cost estimates, and assumptions, about program needs
- There is no clear definition of "small population county" – counties just "fall into" the small population category based on the legacy funding formulas
- The status quo funding system has been essentially unchanged for almost ten years. During this time, First 5 California, county commissions, and the State's economic climate have changed significantly
- The status quo funding approach was developed when First 5 revenues were significantly higher than they are today. The current funding approach is not sustainable in the long run, given declining tobacco tax revenues. Because of the fixed embedded components in the current small county funding algorithms, over time, this mechanism tries to draw increasing funds from a decreasing revenue source, and hence is not actuarially sound. **Exhibits 2-1** and **2-2,** starting on the next page, provide the projected costs and number of eligible counties if the current mechanism was to be continued.
- The status quo funding approach does not include performance incentives for small counties, nor does it require small counties to be uniquely accountable for the small population county funds, beyond the overall county commission reporting requirements
- When small population county funding was initiated, there was no additional program funding for counties. Over the last several years, small population counties have all received significant additional program funds to help support county activities (over $100,000, per county, per year).

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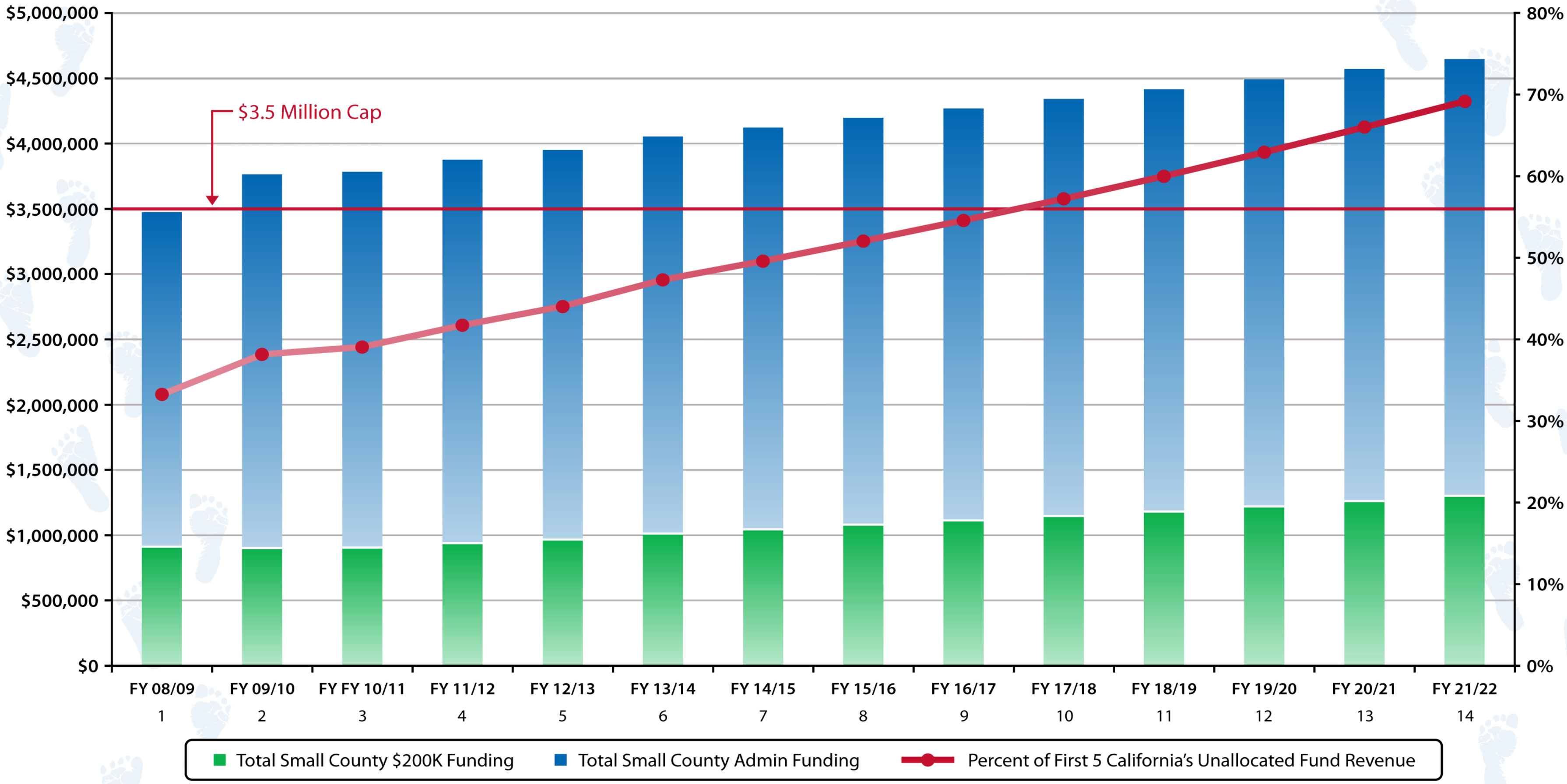
2. Project Need and Challenges *(continued)*

Exhibit 2-1

Summary of Total Small County Actual and Potential Funding*
(Current Mechanism)



* Tobacco tax revenues are based on actual FY 2008/09 revenues, First 5 California data for FY 2009/10 to FY 2013/14, and a 3 percent annual decline in each year after FY 2013/14.

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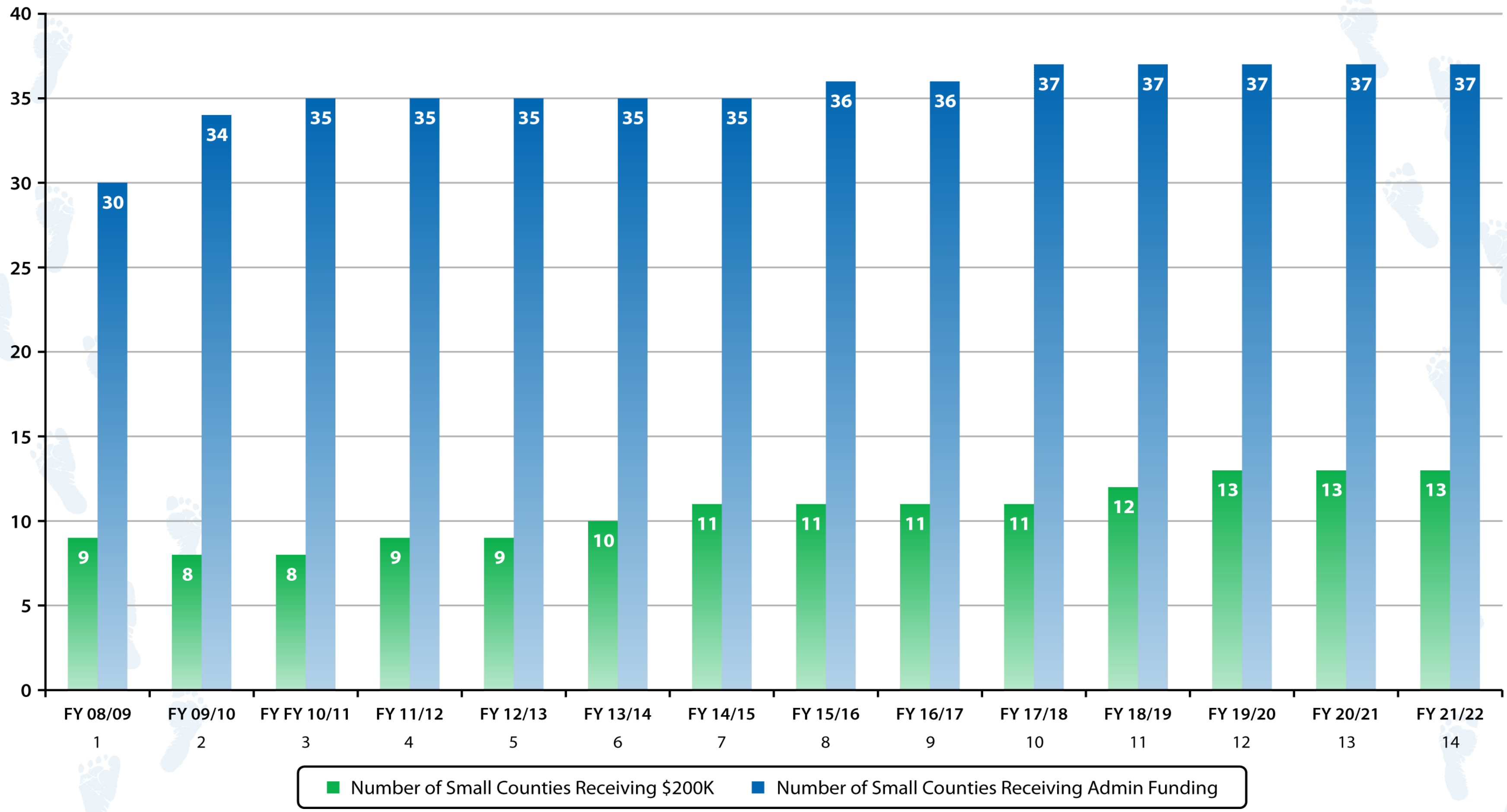
2. Project Need and Challenges *(continued)*

Exhibit 2-2

Actual and Potential Number of Small Counties Receiving Small County Funding*
(Current Mechanism)



* The number of potentially eligible small counties in FY 2008/09 was 34, however only 30 counties actually received admin funding due to the trigger provision.

2. Project Need and Challenges *(continued)*

The Commission and staff, working in tandem with the non-profit First 5 Association of California (representing county commissions), has been considering alternative approaches for small population county funding since 2000. At a Commission meeting in early 2001, members predicted they would reach a consensus on small population county funding mechanisms by late 2001. Clearly, such a consensus was never achieved. The Commission, staff, and Workgroup have tried to address the many challenges that have made finding a solution to the problem of small population county funding elusive:

- Although they were never fully developed, several initial funding proposals would have required legislation. Even if a legislative solution emerged, there has never been a "good" time to "open up" the Act to legislative change
- First 5 program funding is based on a declining revenue stream. Tobacco tax revenues have declined approximately eighteen (18) percent since 1998, and they are predicted to decline by approximately three (3) percent per year, at least for the next few years. **Exhibit 2-3,** on the next page, illustrates actual and projected First 5 California tobacco tax revenues through fiscal year 2012/13. Each year, there are fewer funds to distribute, and fewer funds with which to operate programs
- It has been difficult to agree on new funding mechanisms that would not provide at least the same amount of funding, to the same counties, as the status quo. At the same time, the status quo is not sustainable. The funding issue has been exacerbated over the last few years, as the statewide budget crisis is resulting in significant declines in funding for social services, and even greater external demands for First 5 program funds.

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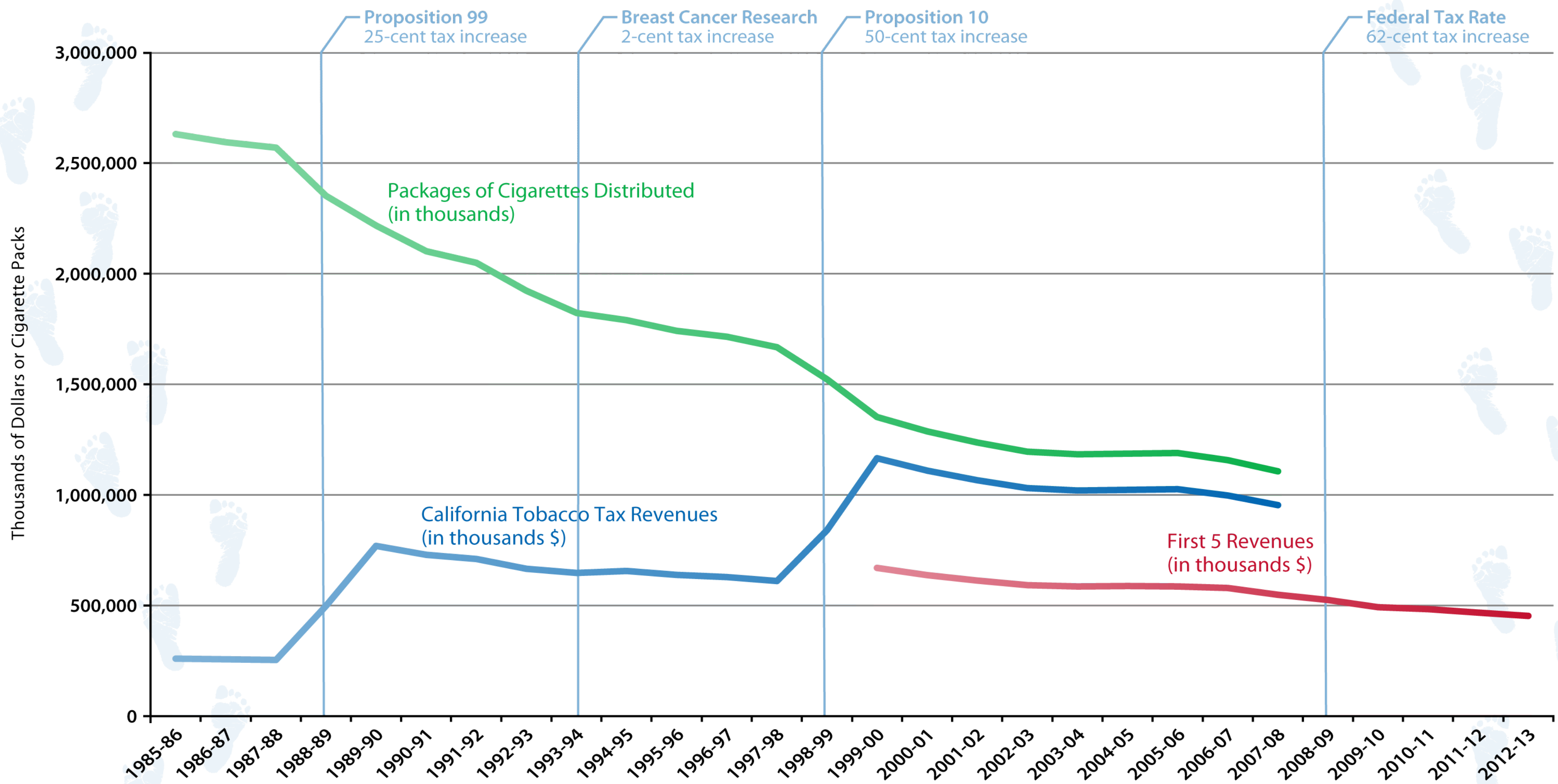
2. Project Need and Challenges *(continued)*

Exhibit 2-3

California Tobacco Tax Revenues, Cigarette Consumption, and First 5 Revenues (in thousands) (1985/96 to 2012/13 (estimated))



Sources: Tobacco tax revenues and cigarette consumption are based on actual revenues and consumption published by California Board of Equalization.
First 5 revenues are based on actual FY 2008/09 revenues, and First 5 California data for FY 2009/10 to FY 2012/13.

2. Project Need and Challenges *(continued)*

- The concept of a shared approach to small population county funding – with funds coming from both First 5 California and the larger counties – was appealing, and accepted by some larger counties; however, it was difficult to agree on the specifics of such a shared approach, and implementation was challenging.[3] The Workgroup also considered proposals to use the Surplus Money Investment Fund (SMIF) to fund small counties, which would have required legislation
- While the concept of additional funding to support effective small population county First 5 programs is generally accepted, there has been little agreement on the exact amount, and the exact funding methodologies
- A "small population county" has never been specifically defined. Without a clear definition as to which of the State's fifty-eight (58) counties fall into the "small population county" classification, and thus require additional funding, it has been difficult to agree on how to support these counties
- Determining the appropriate amount of funding necessary for a small population county to operate effectively has been challenging. Clearly, small population counties face unique geographical and infrastructure issues. At the same time, there are far fewer children, aged zero to five, living in small population counties. Small population counties receive far greater funding, on a per-child basis, implying that they could be held to different performance standards than large counties – a concept that has been difficult to implement.

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[3] In March 2004, the Commission approved four more years of graduated administration funding, with 20 percent of the funds to come from reducing School Readiness Program funds for the ten largest counties. Three years later, Commission staff recommended retroactively eliminating this shared funding approach because it was difficult to implement and resulted in funding delays.

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2. Project Need and Challenges *(continued)*

- The Act provides for counties to form joint county commissions, which might, in theory, address some of the economies of scale faced by rural counties. This has been seen as a mechanism to reduce administrative costs, but for a number of reasons, no counties have collaborated in this way, to-date.

* * * * *

First 5 California, and the county commissions, would benefit from an equitable, long-term approach to small population county funding. To be successful, such an approach must address many of the challenges, identified above. In developing a new funding allocation approach for small population counties, it is also helpful to consider funding allocation methodologies for other federal and state programs. The sidebar, on the next page, discusses several issues related to formulating sound funding allocations.

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Federal and State Experience with Funding Allocation Formulas

Each year, over $250 billion in federal funds are allocated, mostly to states, utilizing funding allocation formulas. States, utilizing their own funding allocation approaches, distribute much of these federal funds to local governments. While there is no "one size fits all" formula that one can apply to First 5 small population county funding, we can gain insight by examining the characteristics, and lessons learned, from these other programs.

The objective of funding allocation formulas is to appropriately and effectively target limited public resources to those who need assistance. Three principle goals of funding formulas are to: (1) deliver funds to the right places, (2) implement programs and deliver services, and (3) produce desired outcomes. An advantage of utilizing formulas is that they are typically more transparent than distributing a flat dollar amount. Formulas document assumptions and computations. This <u>transparency is important</u> because most funding allocations occur within the context of a complex political process.

In theory, a funding allocation formula allows the funding agency to link the structure of the aid program to its objectives, offer similar levels of service across jurisdictions for particular programs, and encourage spending on particular services. Funding allocation formulas typically represent a balance between several potentially competing interests: simplicity, the ability to determine allocations quickly, transparency, relevance to program goals, and meeting jurisdictions' needs. Formulas also minimize the extent to which program administrators must deal with pressure from recipient jurisdictions in making allocation decisions year-to-year.

Studies of funding allocation formulas identify a number of specific characteristics of successful funding approaches, including:

- Specify goals of the allocation program as clearly as possible; be explicit
- Include basic formula elements, such as: a direct or indirect measure of need, a measure of capacity or capability, and a measure of effort
- Establish consensus among stakeholders on the estimate of need to be incorporated into the formula
- Incorporate performance metrics
- Incorporate equity and transparency
- Incorporate principles and rationales of the program
- Separate the question of how to distribute funds, from the question of why they are needed.

Funding allocation studies have identified specific technical mechanisms that are often incorporated into funding formulas. While not all of these mechanisms are directly applicable to First 5, some mechanisms may warrant consideration for small population county funding:

- Formulas may consist of a mathematical equation or algorithm for calculating the amounts, often in the form of a basic equation, followed by additional adjustments and rules. Equations may result in an actual dollar amount, or share of total dollars to be allocated
- When formulas incorporate data (such as population, poverty, etc.) it is important to consider data quality, as the data utilized will directly influence allocation amounts. This is particularly important for First 5, because there is a tendency for allocations to smaller areas to be more distorted than to larger areas due to smaller samples, and larger sampling errors
- Performance metrics could include: measures of monetary allocation success, effective use of funds in program-specific services, beneficial impacts of services, assessments of performance of current programs, and implementation of recommended changes
- Thresholds for funding eligibility may create incentives for manipulation by potential fund recipients. Utilizing a sliding scale may reduce these incentives
- Specific recommendations for funding formula features include: Utilize multi-tiered approaches (for example, distributing portions of the total funding based on different mechanisms); utilize weighting for different formula components; utilize moving averages to help smooth estimates; and avoid potentially unnecessary formula complexity
- A federal study found that five of twelve programs reviewed incorporated a small state minimum into their funding allocation formulas. Most programs used a percentage of total appropriations as a threshold. The concept was that some costs of a program were fixed, regardless of a state's population
- Over twenty different federal allocation formulas utilize the Office of Management and Budget's definition of "rural" in their formulas.

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3. Baseline Principles and Assumptions

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3. Baseline Principles and Assumptions

Given the challenges inherent in developing viable solutions to small population county funding, NewPoint Group's approach was to first establish a set of guiding principles and assumptions to direct development of specific alternatives. We developed these principles and assumptions after reviewing Commission meeting minutes (including input from Commission members, First 5 staff, and small county representatives), Workgroup proceedings, the Act, and other state and federal funding allocation approaches.

We believe that to be successful, any proposed small population county funding alternatives must reflect these principles and assumptions. We categorized each of these principles and assumptions under one of four (4) general objectives for funding allocation: (1) efficiency, (2) equity, (3) inclusivity, and (4) accountability. We have tried to consider and balance, these four objectives in developing our funding alternatives and recommendation.

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3. Baseline Principles and Assumptions *(continued)*

Efficiency

1. New small population county funding mechanisms should meet existing statutory guidelines. There should be no new legislative solutions
2. New small population county funding mechanisms should be aligned with the First 5 California's mission and vision
3. The First 5 revenue stream should not be intended to cover all of a county's needs for young children and families, and counties should seek opportunities for leveraging funds
4. There should be potential for improved efficiency and/or economy of scale by combining some administrative and/or program functions of small counties

Equity

5. The definition of "small population county" should be clear, and congruent with broader State and/or federal programmatic definitions of small and/or rural counties
6. While a shared funding approach with large counties is in theory attractive, there are no existing statutory mechanisms to effectively administer and enforce such an approach. As a result, small county funding approaches should utilize First 5 California unallocated funds
7. Use of First 5 California's unallocated funds to support small population counties at the statewide level should not preclude counties from developing an additional voluntary funding solution to augment State small county funding, through the First 5 Association of California, or through other mechanisms
8. A new small population county funding approach should be simple, equitable, transparent, and consider program needs

3. Baseline Principles and Assumptions *(continued)*

Inclusivity

9. It is the intent that First 5 is a statewide program, and that First 5 services should be available in all counties of the State that wish to provide a program
10. The existing statutory funding allocation approach does not provide adequate funding necessary for small population counties to operate an effective program. Small population county funding should help ensure that there is sufficient capacity and infrastructure in these counties to achieve goals of Proposition 10
11. Small counties may incur unique operating challenges, as compared to large counties, due to increased geographic distances, inclement weather, reduced economies of scale, and lack of infrastructure. These challenges may result in different costs for small counties
12. Small population county First 5 programs should be especially important due to the limited number of other support systems for children, aged zero to five, in rural areas

Accountability

13. The tobacco tax revenues that support First 5 at the State and county levels are declining; new small population county funding solutions should reflect this declining revenue source
14. First 5 California and county commissions should maximize dollars allocated to programs, as compared to administration
15. A new small population county funding approach should be flexible, and sustainable over the long term

3. Baseline Principles and Assumptions *(continued)*

Accountability *(continued)*

16. A new funding approach should provide performance incentives, create incentives to reduce administrative costs, and provide built-in accountability for small population counties. There is no need for an administrative line-item funding guarantee, but counties should receive adequate revenues to cover both programs and administration, at their own discretion
17. Small population counties should be able to provide more hands-on and direct services to children and families because there are fewer children, aged zero to five, in these counties
18. Small population counties with a significant fund balance should utilize those resources, and should not require supplemental small population county funding from First 5 California.

Table 3-1, starting on the next page, identifies each of these eighteen (18) principles, and provides the reasoning behind the principle or assumption.

3. Baseline Principles and Assumptions *(continued)*

Table 3-1
Small Population County Funding Principles

Principle or Assumption	Reasoning
	Efficiency
1. New small population county funding mechanisms should meet existing statutory guidelines. There should be no new legislative solutions	In the current legislative and fiscal climate, it would not be prudent to "open up" the Act to legislative changes
2. New small population county funding mechanisms should be aligned with the First 5 California's mission and vision	First 5 California's mission, vision, and strategic plan serve as a roadmap for the Commission. Particularly applicable goals and strategies include: "Provide quality and cost-effective services to our partners", and "Fiscal Soundness – Establish fiscal practices to ensure accountability and maintenance of programs"
3. The First 5 revenue stream should not be intended to cover all of a county's needs for children and families, and counties should seek opportunities for leveraging funds	The Commission has stated that First 5 funding is "basically a framework to begin with", and the Act states that funds shall be used "only to supplement existing levels of service, and not to fund existing levels of service"
4. There should be potential for improved efficiency and/or economy of scale by combining some administrative and/or program functions of small counties	The Act seeks to "eliminate duplicative administrative systems", and specifically notes that "two or more counties may form a joint county commission, adopt a joint county strategic plan, or implement joint programs, services, or projects." While there is institutional resistance from already established county commissions, there appear to be opportunities to reduce costs by combining programs and/or administrative duties across counties

3. Baseline Principles and Assumptions *(continued)*

Table 3-1
Small Population County Funding Principles *(continued)*

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Principle or Assumption	Reasoning
	Equity
5. The definition of "small population county" should be clear, and congruent with broader State and/or federal programmatic definitions of small and/or rural counties	Without a clear definition of "small population county", it is difficult to determine how to support these counties. Under the status quo funding approach, the "small population county" has been a moving target - both the counties and First 5 California will benefit from a better understanding of who is to be assisted through the small county funding mechanism
6. While a shared funding approach with large counties is in theory attractive, there are no existing statutory mechanisms to effectively administer and enforce such an approach. As a result, small county funding approaches should utilize First 5 California unallocated funds	The Act provides a clear funding allocation mechanism, with 80 percent of funds for counties, based on birth rate, and 20 percent of funds to First 5 California. Within the 20 percent, funds are allocated as follows: 6 percent media, 5 percent education, 3 percent child care, 3 percent research, 2 percent unallocated, and 1 percent administration. Small population funding has historically been provided from the unallocated fund; without legislative change, the unallocated fund is the most appropriate source of funding for small population counties
7. Use of First 5 California's unallocated funds to support small population counties at the statewide level should not preclude counties from developing an additional voluntary funding solution to augment State small county funding, through the First 5 Association of California, or through other mechanisms	One of the few points of agreement of the Workgroup was that the source of small population county funding should be shared between First 5 California and the counties, because all counties benefit from an effective statewide program. However, within the existing statute, there is no straightforward mechanism to implement a shared approach. This does not preclude counties from developing their own voluntary mechanism to support small population counties, in addition to existing activities and policies
8. A new small population county funding approach should be simple, transparent, equitable, and consider program needs	The concept of keeping funding allocation formulas simple and transparent is frequently mentioned in discussions of federal funding allocation approaches. These factors were also identified and discussed by the Commission, staff, and Workgroup as important considerations in developing small population county funding alternatives

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3. Baseline Principles and Assumptions *(continued)*

Table 3-1
Small Population County Funding Principles *(continued)*

Page 3 of 4

Principle or Assumption	Reasoning
	Inclusivity
9. It is the intent that First 5 is a statewide program, and that First 5 services should be available in all counties of the State that wish to provide a program	The Act created a program in the state "… to emphasize local decision making, and to provide for local flexibility in designing delivery systems…" The Commission has repeatedly emphasized the importance of the statewide nature of the program, and of "statewideness"
10. The existing statutory funding allocation approach does not provide adequate funding necessary for small population counties to operate an effective program. Small population county funding should help ensure that there is sufficient capacity and infrastructure in these counties to achieve goals of Proposition 10	The birth rate allocation formula results in minimal funding levels for those counties with very few births per year. For example, in 2008, there were only 13 births in Alpine County, 0.0024 percent of the births in the State. Based only on the birth rate allocation formula, Alpine County received $9,827 in FY 2008/2009
11. Small counties may incur unique operating challenges, as compared to large counties, due to increased geographic distances, inclement weather, reduced economies of scale and lack of infrastructure. These challenges may result in different costs for small counties	Through presentations to the Commission, and proceedings of the Workgroup, small population counties have argued the many challenges they face in implementing First 5 programs. Key issues are geographic distances and isolation, inclement weather making travel difficult or impossible at certain times of year, reduced economies of scale in providing services, and general lack of infrastructure and services for the First 5 population (for example, few or no pediatricians and pediatric dentists in some counties, few or no licensed daycare providers, etc.)
12. Small population county First 5 programs should be especially important due to the limited number of other support systems for children, aged zero to five, in rural areas	Because of the lack of infrastructure and resources for families and children in many rural counties, there is a greater need for the types of services that First 5 provides. As one Commissioner noted, rural county commissions provide "tremendous value to their communities"

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3. Baseline Principles and Assumptions *(continued)*

Table 3-1
Small Population County Funding Principles *(continued)*

Principle or Assumption	Reasoning
Accountability	
13. The tobacco tax revenues that support First 5 at the State and county levels are declining; new small population county funding solutions should reflect this declining revenue source	Since the inception of the Act, tobacco tax revenues have declined eighteen (18) percent. Tobacco tax revenues are expected to decline approximately three (3) percent per year over the next several years. In order to be fiscally responsible, small population county funding solutions must reflect this fiscal reality
14. First 5 California and county commissions should maximize dollars allocated to programs, as compared to administration	The Act emphasizes eliminating duplicative administrative systems. The Act also emphasizes outcome-based accountability. The Commission has repeatedly noted their preference for reducing administrative costs, and focusing on programs to help children. First 5 California, and all other State agencies, must demonstrate that all expenditures are "mission critical"
15. A new small population county funding approach should be flexible, and sustainable over the long term	To be most effective, a funding allocation system should not be static. Rather, it must be flexible enough to adapt to changing financial and programmatic dynamics over time
16. A new funding approach should provide performance incentives, create incentives to reduce administrative costs, and provide built-in accountability for small population counties. There is no need for an administrative line-item funding guarantee, but counties should receive adequate revenues to cover both programs and administration, at their own discretion	Economic incentives are a mechanism to promote positive change. Designing a funding allocation system with performance incentives and built-in accountability will potentially improve programmatic outcomes for children and families
17. Small population counties should be able to provide more hands-on and direct services to children and families because there are fewer children, aged zero to five, in these counties	The ratio of county commission dollars per child is significantly higher in small population counties than in urban counties. The number of children age zero to five in the smallest counties is in the dozens or low thousands, orders of magnitude less than most large counties. As a result, it is potentially feasible for the smallest county commissions to provide direct services to a relatively high percentage of their county's families and children during the course of a few years
18. Small population counties with a significant fund balance should utilize those resources, and should not require supplemental small population county funding from First 5 California	Historically, the provision of small population county funding has utilized a "trigger", on the basis that a county with a significant uncommitted fund balance does not require supplemental funds. Given declining tobacco tax revenues, it is fiscally responsible to carefully review the information provided in each small county's annual audit to determine whether they "need" small county funds.

4. Components of Funding Mechanisms

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4. Components of Funding Mechanisms

In order to develop funding mechanisms, NewPoint Group first conducted relevant research and analyses related to funding allocations in general, and small population county funding, specifically. Our research and analysis included the following tasks:

- A review of the history of First 5 small population county funding, since the inception of the program. We reviewed all relevant Commission meeting minutes, and Workgroup proceedings and proposals
- A review and analysis of First 5 funding distributions to counties, by program type, since inception of the Commission. We focused our analyses on the quantity of small population county funding, by county, as compared to total county funding
- A review of FY 2008/09 First 5 county commission audits for the nine (9) smallest counties. Our review showed that these nine (9) counties operate their First 5 programs with an average of just over $500,000 in total expenditures, including programs, administration, and evaluation. Most of these small counties had limited outside revenue (i.e. not provided by First 5 California)
- A literature review of funding allocation methods at the federal and state level. This review provided insight into the key elements of successful funding allocation methodologies

4. Components of Funding Mechanisms *(continued)*

- A review and analysis of federal definitions of "rural". Many federal and state programs allocate moneys specifically to "rural" communities. Even at the federal level, there is no clear or simple definition of rural; however, this analysis provided insight into the characteristics that should be considered in defining small counties. In general, many of the First 5 small population counties would be considered rural counties, by federal definitions
- A review and analysis of California county population and birth rate data. We focused our analyses on actual and projected birth rates, by county, from 1998 through 2018, developed by the California Department of Finance (DOF)
- A review and analysis of projected First 5 tobacco tax revenue. In this initial analysis, we built on existing projections of First 5 funding through 2013/14.

Through this background analysis, we developed four basic components to be included in any of our funding mechanisms. These basic components address four key aspects of a funding allocation: (1) who receives funding, (2) how much funding is available, (3) how should that funding be allocated between eligible entities, and (4) how to incorporate performance incentives and accountability? In the remainder of this section, we describe the four basic components, component options that we considered, and the relevant findings and research that support (or reject) the component options. Section 5 provides a detailed analysis of the recommended small county funding approach.

4. Components of Funding Mechanisms *(continued)*

Small County Eligibility

In developing a funding allocation approach, the first, and perhaps most critical question, is: who receives funding? Funding eligibility should be determined prior to any specific funding allocation approach. This is a key pitfall of the current small population county funding mechanisms – counties are small based on the formula, not by definition. There is no definition in the literature, or statute, of "small county". Even the term "rural", which is used in many federal and state funding programs, does not have a statutory definition. Because a rural county and a small county are in many ways similar, we researched existing rural definitions, to determine if rural definitions could be applied to our small county eligibility criteria.

There are three (3) federal agencies that have definitions of rural, each somewhat different: the U.S. Census Bureau, the Office of Management and Budget (OMB), and the Economic Research Service (ERS) of the U.S. Department of Agriculture (USDA). The Census Bureau definitions define urban, large rural, small rural, and isolated regions by census tract. Because census tracts are smaller divisions than counties, Census Bureau definitions are not so relevant to defining small counties.

The ERS has conducted extensive analysis on definitions and classifications for rural areas. ERS utilizes two different coding systems, the Rural-Urban Continuum Code (a 1 to 9 ranking of "ruralness"), and the Urban Influence Code (a 1 to 12 ranking of the degree of urban influence). Both of these codes are applied at the county level. The smallest California counties, in terms of birth rate, also fall within the most rural counties, using these ERS coding systems.

4. Components of Funding Mechanisms *(continued)*

Small County Eligibility *(continued)*

The OMB defines metropolitan (metro) statistical areas for use in a number of government programs. The OMB definitions are at the county level. Metropolitan statistical areas are not really designed for non-statistical uses; however, many funding programs utilize OMB definitions to determine whether a county qualifies as "rural". A metropolitan statistical area is defined as a central, or core county, with one or more urbanized areas with a population of at least 50,000. OMB also defines a micropolitan (micro) statistical area as any non-metropolitan county with an urban cluster of at least 10,000 residents, but less than 50,000 residents. Micropolitan counties fall between the very smallest, low population counties, and the more populated and urbanized counties.

Table 4-1, on the next page, compares the OMB county classifications for (1) the thirty (30) counties that received small population county funding in FY 2008/09, and (2) the sixteen (16) counties based on our proposed eligibility definition. Our proposed eligibility definition is: "counties with less than, or equal to, 0.10 percent of the State births (birth rate share)."

Data in Table 4-1 illustrate that our proposed eligibility definition is significantly more restrictive than the current small county funding approach (in FY 2008/09), and somewhat more restrictive than the OMB non-metropolitan approach. We chose not to utilize the OMB definition of non-metropolitan counties, because it includes a relatively high number of total counties, at twenty-one (21). The OMB definition is also not directly related to our specific application, i.e. limited funding for low birth rate counties. Finally, the OMB definition is subject to change county designations with the 2010 census results.

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4. Components of Funding Mechanisms *(continued)*

Table 4-1
Office of Management and Budget Definitions versus Current and Proposed Small Population County Funding Eligibility

		Current Approach FY 2008/09 – 30 Counties		Proposed Approach 0.1% Birth Rate (Cut-off) – 16 Counties	
No.	OMB Definition Category	Number	Percent	Number	Percent
1.	OMB – Metro	9	30%	0	0%
2.	OMB – Micro	9	30%	4	25%
3.	OMB – Non-Metro and Non-Micro	12	40%	12	75%
	Total Small Counties (1 + 2 + 3)	**30**	100%	**16**	100%
	OMB – Non-Metro (2 + 3)	21	70%	16	100%

Notes:

OMB: United States Office of Management and Budget.

OMB – Metro: The OMB defines a metropolitan area as a central, or core county, with one or more urbanized areas, which has a population of at least 50,000 residents.

OMB – Micro: The OMB defines a micropolitan area as any non-metro county with an urban cluster of at least 10,000 residents or more, but less than 50,000 residents.

OMB – Non-Metro and Non-Micro: The OMB defines a non-metro and non-micro area as a non-core county, which is a county that is neither in a metropolitan area or a micropolitan area.

OMB – Non-Metro: The OMB defines a non-metropolitan area as a county that is not located in a metropolitan area. Micropolitan areas and non-core counties are both designated as non-metropolitan areas.

4. Components of Funding Mechanisms *(continued)*

Small County Eligibility *(continued)*

Table 4-1 illustrates that in FY 2008/09, nine (9) of the counties that received small county funding were considered OMB metro counties. Under our proposed definition, no OMB metro counties would receive small county funding. In FY 2008/09, nine (9) OMB micro counties received small county funding. Under our proposed definition, only four (4) OMB micro counties would receive small county funding. Both the current and proposed funding approaches would provide funding to all twelve (12) OMB non-metro and non-micro counties in the State. These twelve (12) counties are among the smallest, and most isolated, rural counties in the State.

Our proposed funding eligibility criteria, less than or equal to 0.10 percent of State births, is directly linked to the core application of small counties – the fact that the statutory funding mechanism does not provide adequate funding for low birth rate counties to operate effective First 5 programs. We analyzed actual and projected birth rates, by county, to develop the 0.10 percent threshold.

Table 4-2, starting on page 40, provides a comparison of actual 1998 and 2008 births and birth rates, with projected 2018 births and birth rates. This table illustrates the stability of projected birth rates over time for small counties. Even though the total number of births statewide, and by county, are increasing, the relative birth rates change very little. The nine (9) smallest counties, as defined by percent of State births, are consistent across the twenty (20) year time horizon. The only shifts in ranking between the sixteen (16) smallest counties occurs between the tenth and thirteenth smallest counties.

4. Components of Funding Mechanisms *(continued)*

Small County Eligibility *(continued)*

The 0.10 percent birth rate threshold provides a reasonable demarcation between the smallest counties, in terms of number of births. Our proposed eligibility threshold of 0.10 percent incorporates the smallest (most rural) counties as defined by the OMB, and it includes the smallest counties, in terms of number of births. Because the 0.10 percent birth rate threshold is a based on a percent of total births, it will adjust, over time, as birth rates increase (or decrease). Using the 0.10 percent birth rate threshold will always include the smallest birth rate counties. **Exhibit 4-1,** on page 43, illustrates the sixteen (16) small counties under our recommended eligibility criteria.

We also considered defining small counties based on the lowest quartile of the State's 58 counties, in terms of birth rate. This definition would have consisted of the fifteen (15) lowest birth rate counties. We rejected this definition because it provided a more arbitrary "cut-off" line between the fifteenth and sixteenth counties. As Table 4-2 illustrates, in 2008, only 12 births separated the fifteenth and sixteenth counties, Tuolumne County and Siskiyou County.

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4. Components of Funding Mechanisms *(continued)*

Table 4-2

California Births by County, 1998, 2008, and 2018

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	1998 (Actual)			2008 (Actual)			2018 (Projected)		
County	Number	Percent	Rank	Number	Percent	Rank	Number	Percent	Rank
1. Alpine	15	0.0029%	1	13	0.0024%	**1**	13	0.0021%	1
2. Sierra	19	0.0036%	2	22	0.0040%	**2**	25	0.0041%	2
3. Modoc	81	0.016%	3	92	0.017%	**3**	104	0.017%	3
4. Trinity	121	0.023%	4	126	0.023%	**4**	143	0.024%	4
5. Mariposa	135	0.026%	6	147	0.027%	**5**	161	0.027%	5
6. Plumas	126	0.024%	5	175	0.032%	**6**	194	0.032%	6
7. Mono	135	0.026%	7	175	0.032%	**7**	199	0.033%	7
8. Inyo	201	0.039%	8	226	0.041%	**8**	253	0.042%	8
Amador	263	0.050%	9	288	0.052%	**9**	319	0.053%	9
Del Norte	316	0.061%	13	312	0.057%	**10**	342	0.056%	10
9. Lassen	294	0.056%	11	323	0.059%	**11**	357	0.059%	11
Colusa	314	0.060%	12	367	0.067%	**12**	409	0.067%	12
Calaveras	288	0.055%	10	373	0.068%	**13**	418	0.069%	13
Glenn	380	0.073%	14	472	0.086%	**14**	523	0.086%	14
Tuolumne	429	0.082%	15	486	0.088%	**15**	533	0.088%	15
Siskiyou	461	0.088%	16	498	0.090%	**16**	548	0.090%	16
Lake	566	0.11%	17	705	0.13%	17	775	0.13%	17
Tehama	651	0.12%	18	790	0.14%	18	875	0.14%	18
San Benito	891	0.17%	20	816	0.15%	19	923	0.15%	19

Bold type counties are the most recent nine (9) counties receiving the $200,000 small county allocation.
Counties are ranked by lowest to highest, in terms of birth rates for 2008.

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4. Components of Funding Mechanisms *(continued)*

Table 4-2

California Births by County, 1998, 2008, and 2018 *(continued)*

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County	1998 (Actual)			2008 (Actual)			2018 (Projected)		
	Number	Percent	Rank	Number	Percent	Rank	Number	Percent	Rank
Nevada	757	0.15%	19	871	0.16%	20	966	0.16%	20
Mendocino	1,082	0.21%	22	1,168	0.21%	21	1,285	0.21%	21
Yuba	984	0.19%	21	1,264	0.23%	22	1,411	0.23%	22
Sutter	1,158	0.22%	23	1,468	0.27%	23	1,661	0.27%	23
Humboldt	1,457	0.28%	24	1,601	0.29%	24	1,744	0.29%	24
Napa	1,477	0.28%	25	1,671	0.30%	25	1,874	0.31%	25
El Dorado	1,677	0.32%	26	1,814	0.33%	26	2,030	0.33%	26
Shasta	1,943	0.37%	27	2,186	0.40%	27	2,418	0.40%	27
Butte	2,267	0.43%	31	2,518	0.46%	28	2,795	0.46%	28
Madera	2,073	0.40%	28	2,535	0.46%	29	2,799	0.46%	29
Yolo	2,148	0.41%	29	2,669	0.48%	30	2,933	0.48%	30
Kings	2,164	0.42%	30	2,710	0.49%	31	2,999	0.49%	31
Marin	2,569	0.49%	34	2,716	0.49%	32	3,021	0.50%	33
San Luis Obispo	2,373	0.46%	32	2,737	0.50%	33	3,019	0.50%	32
Imperial	2,500	0.48%	33	3,221	0.58%	34	3,565	0.59%	34
Santa Cruz	3,421	0.66%	36	3,538	0.64%	35	3,863	0.64%	35
Placer	2,673	0.51%	35	4,035	0.73%	36	4,577	0.75%	36
Merced	3,529	0.68%	37	4,423	0.80%	37	4,909	0.81%	37
Solano	5,510	1.06%	39	5,607	1.02%	38	6,186	1.02%	38
Sonoma	5,472	1.05%	38	5,761	1.04%	39	6,402	1.05%	39

4. Components of Funding Mechanisms *(continued)*

Table 4-2

California Births by County, 1998, 2008, and 2018 *(continued)*

Page 3 of 3

	1998 (Actual)			2008 (Actual)			2018 (Projected)		
County	Number	Percent	Rank	Number	Percent	Rank	Number	Percent	Rank
Santa Barbara	5,764	1.11%	40	6,319	1.15%	40	6,877	1.13%	40
Monterey	6,813	1.31%	41	7,434	1.35%	41	8,143	1.34%	41
Tulare	6,890	1.32%	42	8,533	1.55%	42	9,466	1.56%	42
Stanislaus	6,927	1.33%	43	8,549	1.55%	43	9,555	1.57%	43
San Francisco	8,157	1.56%	44	9,104	1.65%	44	9,710	1.60%	44
San Mateo	10,142	1.95%	46	9,765	1.77%	45	10,539	1.73%	45
San Joaquin	8,647	1.66%	45	11,030	2.00%	46	12,404	2.04%	46
Ventura	11,576	2.22%	48	12,076	2.19%	47	13,298	2.19%	47
Contra Costa	12,506	2.40%	49	13,136	2.38%	48	14,571	2.40%	48
Kern	11,521	2.21%	47	15,315	2.78%	49	16,934	2.79%	49
Fresno	14,363	2.76%	50	16,760	3.04%	50	18,500	3.05%	50
Alameda	20,933	4.02%	52	20,972	3.80%	51	22,773	3.75%	51
Sacramento	17,757	3.41%	51	21,389	3.88%	52	23,452	3.86%	52
Santa Clara	26,659	5.11%	54	26,730	4.85%	53	29,231	4.81%	53
Riverside	23,230	4.46%	53	32,866	5.96%	54	36,695	6.04%	54
San Bernardino	28,245	5.42%	55	33,788	6.13%	55	37,263	6.13%	55
Orange	46,189	8.86%	57	42,456	7.70%	56	46,511	7.66%	56
San Diego	43,422	8.33%	56	46,742	8.47%	57	50,983	8.39%	57
Los Angeles	158,604	30.43%	58	147,684	26.78%	58	162,990	26.83%	58
Total	**521,265**	**100.00%**		**551,567**	**100.00%**		**607,466**	**100.00%**	

4. Components of Funding Mechanisms *(continued)*

Exhibit 4-1

Sixteen (16) Small Population Counties

* Three (3) of the sixteen (16) small counties do not have any incorporated cities: Alpine County, Mariposa County, and Trinity County.

4. Components of Funding Mechanisms *(continued)*

Small County Total Available Funds

The second question relative to the funding allocation approach is, what is the total amount of available funds? Historically, First 5 small population county funding has been capped at $3.5 million. The actual amount of funding distributed to small population counties has been close to $3.5 million over the last several years.

A long-term solution to small county funding should address the reality that tobacco taxes are a declining revenue source. Given the statutory guidelines for allocation of First 5 tobacco tax revenues, the only practical source of small county funding is First 5 California's unallocated fund. First 5 California receives 20 percent of Proposition 10 tobacco tax revenues. The allocation of this 20 percent is further defined in statute. The unallocated account receives 10 percent of the 20 percent, or 2 percent, of total Proposition 10 tobacco tax revenues.

First 5 tobacco tax revenues have declined eighteen (18) percent since the program began. Over the next several years, tobacco tax revenues are expected by First 5 to decline by approximately three (3) percent per year. **Table 4-3,** on page 47, provides actual and projected total First 5 tobacco tax funding, and funding for counties, First 5 California, and the unallocated fund.

4. Components of Funding Mechanisms *(continued)*

Small County Total Available Funds *(continued)*

We considered three options for establishing the total available funds for small counties, all based on a percent of the unallocated fund. The intent was to identify a rational basis for selecting a percent of unallocated fund revenues. The total amount of funding for small counties would be based on a percent of unallocated revenues (not the unallocated fund balance) from the previous fiscal year.[4] Each year, the amount of total available funds would decrease at the same rate as total tobacco tax revenues decrease (with a one year lag). Thus, the total available funds would be sustainable, though decline, over the long term, as all First 5 tobacco tax funding declined.

The first option we considered was to determine the approximate actual percent of unallocated funds for FY 2008/09, the first year following the most recent Commission approval of the $3.5 million cap in spending on small counties. This option would utilize that one-year percent of the unallocated fund to determine the percent of unallocated funds for small counties, going forward. The actual percent of unallocated funds spent on small counties in FY 2008/09 was 33 percent. Under this option, First 5 California would set aside 33 percent of unallocated fund revenue in each fiscal year, to be distributed to eligible small counties. We did not select this alternative, because it was based on only one fiscal year data point, as compared to the multiple fiscal year data points of the second option, described below.

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[4] Because total available small county funds are based on prior year tobacco tax revenues, no forecasting is necessary and small counties will know their actual yearly allocations close to the beginning of each fiscal year. However, assuming declining tobacco tax revenues, the amount of small county funding in any given fiscal year will actually exceed the selected percent.

4. Components of Funding Mechanisms *(continued)*

Small County Total Available Funds *(continued)*

The second option was to determine the average percent of unallocated funds spent on small county funding, and utilize that average to determine the percent of unallocated funds, going forward. We considered seven years of actual percentages, starting with the first year that the $3.5 million cap was implemented (FY 2002/03), and ending with the last available fiscal year, FY 2008/09. We also included the projected percent of unallocated funds for the last two years for which the $3.5 million cap on small county funding was approved (FY 2009/10 and FY 2010/11) in the average calculation.

The average percent of the unallocated fund spent (or projected to be spent) on small counties over this nine year period was 32 percent.[5] Under this option, First 5 California would set aside 32 percent of unallocated fund revenue in each fiscal year, to be distributed to eligible small counties, in the following fiscal year. We selected this 32 percent of the unallocated fund revenues total funding level for our recommended approach, because it best reflects the actual contribution to small counties over the history of First 5. The 32 percent of unallocated fund revenues is equal to 0.64 percent of First 5 total annual tobacco tax revenues.

We considered a third option, but only in combination with one of the formulas, a basic fixed funding allocation formula option. Mathematically, the basic fixed formula required just over 34 percent of the unallocated fund in total available funds. In order to guarantee enough total funds for this formula, going forward, we considered an option that would utilize 35 percent of the unallocated fund. We rejected this option (along with the basic fixed formula), because it was not based on a logical rationale, was not necessary without the basic fixed formula, and would result in a greater draw on unallocated fund revenues.

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[5] It is important to note that the 32 percent historical calculation was based on non-lagged, fiscal year unallocated fund revenues. The actual funding recommendation is based on one-year lagged fiscal year unallocated fund revenues, resulting in greater than a nominal 32 percent allocation for the actual fiscal year. Under this "32 percent" recommendation actual small county funding is approximately 33 percent of each current fiscal year unallocated fund revenues.

4. Components of Funding Mechanisms *(continued)*

Table 4-3
Actual and Projected First 5 Tobacco Tax Revenue, by Category, FY 2002/03 to FY 2021/22

Fiscal Year	Total First 5 Tobacco Tax Revenues[a]	County Share (80 percent of total)	First 5 California (20 percent of total)	First 5 California's Unallocated Fund Revenues (2 percent of total)	Small Counties Estimated Share[b]
FY 2002/03	$562,000,000	$449,600,000	$112,400,000	$11,240,000	
FY 2003/04	573,000,000	458,400,000	114,600,000	11,460,000	
FY 2004/05	593,000,000	474,400,000	118,600,000	11,860,000	
FY 2005/06	587,000,000	469,600,000	117,400,000	11,740,000	
FY 2006/07	580,000,000	464,000,000	116,000,000	11,600,000	
FY 2007/08	548,633,800	438,907,040	109,726,760	10,972,676	
FY 2008/09	525,302,985	420,242,388	105,060,597	10,506,060	
FY 2009/10	493,228,000	394,582,400	98,645,600	9,864,560	
FY 2010/11	484,418,000	387,534,400	96,883,600	9,688,360	
FY 2011/12	464,418,000	371,534,400	92,883,600	9,288,360	**$3,100,275**
FY 2012/13	448,418,000	358,734,400	89,683,600	8,968,360	2,972,275
FY 2013/14	428,418,000	342,734,400	85,683,600	8,568,360	2,869,875
FY 2014/15	415,565,460	332,452,368	83,113,092	8,311,309	2,741,875
FY 2015/16	403,098,496	322,478,797	80,619,699	8,061,970	2,659,619
FY 2016/17	391,005,541	312,804,433	78,201,108	7,820,111	2,579,830
FY 2017/18	379,275,375	303,420,300	75,855,075	7,585,508	2,502,436
FY 2018/19	367,897,114	294,317,691	73,579,423	7,357,942	2,427,363
FY 2019/20	356,860,200	285,488,160	71,372,040	7,137,204	2,354,541
FY 2020/21	346,154,394	276,923,515	69,230,879	6,923,088	2,283,905
FY 2021/22	335,769,763	268,615,810	67,153,953	6,715,395	2,215,388

[a] Tobacco tax revenues are based on actual FY 2008/09 revenues, First 5 California data for FY 2009/10 to FY 2013/14, and a 3 percent annual decline.

[b] Based on 32 percent of the First 5 California's Unallocated Fund revenues in previous fiscal year.

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas

Once we have determined which counties are to receive funding, and how much total funding is available, we need to determine how to allocate that funding between counties. There are almost an infinite number of approaches one could take to allocate the funds. At the most basic end of the spectrum, one could simply divide the amount of funds by the number of counties. At the most complicated end of the spectrum, one could develop multi-part weighted equations. Simply dividing the total funds by the number of counties does not address the fact that some counties have a greater need for funding, based on their birth rate total monthly payments. On the other hand, an extremely complex funding formula would be less transparent, and violate the principle of "keeping it simple".

Our intent, in developing funding formulas mechanisms, was to provide a range of both basic, and more complex, formulas. We chose this approach because it provided a starting point for further refinement and analyses. Below, we discuss four (4) different formula approaches (including our recommended approach), and the relative merits of each. **Appendix A** provides example formulas for the three variable formula components, and one example calculation.

There are many advantages to utilizing formulas to allocate funds between counties. First, a formula approach is transparent. All involved parties can examine the formula, and determine exactly how their funding allocation is calculated. By using a formula, we also make our assumptions clear; for example, our basic variable formula approach assumed that counties with lower birth rates should receive more small county funds than counties with higher birth rates. In addition, once a formula is established, it will minimize the need for further decisions at the Commission level.

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

1. Basic Variable Formula

Our basic variable formula approach utilizes only one component, normalized inverse birth rates, to allocated funds between counties. We developed a formula that is based on inverse birth rates, normalized into percentages. We utilize inverse birth rates because the funding need is greatest at the lowest values – i.e. the lowest birth rates. We capped the inverse birth rate at 6.25 percent (equal to 1/16th), thus none of the sixteen (16) counties would receive a disproportionate share of funds. Our proposed basic variable formula utilizes a specified percent of the unallocated funds as the total available funds.

In the basic variable formula, we multiply the normalized inverse birth rate percent by total available funds to determine each county's allocation. For example (using hypothetical figures):

Total available funds = $2.5 million

County X normalized inverse birth rate = 12%

County X small county funding = $2,500,000 × 12% = **$300,000**

The basic variable formula only addresses the issue of low births in small counties. Even with the 6.25 percent cap (prior to normalization), the smallest outlier counties (Alpine and Sierra) would receive a disproportionately large amount of total small county funds. As a result, we do not recommend the basic variable formula.

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

2. Two-Component Variable Formula

Our first more complex, two-component variable formula, utilizes normalized inverse birth rates and normalized inverse population densities. Both of these components reflect funding needs of small counties. Counties with lower birth rates need greater amounts of small county funding, because their birth rate monthly payments are low. Counties with low population densities need greater amounts of small county funding, because it is potentially more difficult to reach children and parents in isolated areas.

For the purpose of evaluating alternatives, we developed a two-component variable formula based on inverse birth rates, normalized into percentages, and inverse population densities, normalized into percentages. Similar to the basic variable formula, we capped both percentages at 6.25 percent, prior to normalization, to help avoid disproportionately favoring outlier counties. For population density, the funding need is greater at the lowest values, thus we utilize an inverse population density, normalized into percentages. Our first proposed two-component variable formula weights the two components differently, and utilizes a specified percent of the unallocated fund as the total available funds. This two-component variable formula weights normalized inverse birth rates seventy-five (75) percent, and normalized inverse population densities twenty-five (25) percent.

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

2. Two-Component Variable Formula *(continued)*

As in the basic variable formula, we multiply the normalized inverse percentages by the variable weighting and total available funds for each variable, and sum the two component fundings to determine each county's allocation. For example (using hypothetical figures):

Total available funds = $2.5 million

County X normalized inverse birth rate = 12%

County X normalized inverse population density = 8%

County X small county funding = $2,500,000 × [(12% × 75%) + (8% × 25%)] = **$275,000**

This first two-component variable formula results in a different distribution than the basic variable formula, with geographically larger and less populated counties receiving more funds than geographically smaller and less populated counties. While the inverse population density factor attempts to account for "rurality", it is only a surrogate measure, and does not necessarily take into account distribution of population within the county. In addition, this formula option still results in a disproportionately large amount of total small county funds being allocated to the smallest outlier counties. As a result, we do not recommend the normalized inverse birth rate, and normalized inverse population density, two-component variable formula.

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

2. Two-Component Variable Formula *(continued)*

Our second two-component variable formula utilizes normalized inverse birth rates and normalized service population. Again, both of these components reflect funding needs of small counties. The service population factor, based on each eligible county's population of children age zero to five, helps balance the inverse birth rate percent, and takes into account the number of children to be served in each county. Service population is not an inverse factor – as the number of children increases, the funding need increases.

This two-component variable formula also caps both variables at 6.25 percent (prior to normalization), weights the two components differently, and utilizes a specific percent of the unallocated fund as the total available funds. We evaluated two different weighting combination of this two-component variable formula: (1) 70 percent normalized inverse birth rate and 30 percent normalized service population, and (2) 60 percent normalized inverse birth rate and 40 percent normalized service population. Our recommended approach formula is the second of these two options, weighting normalized inverse birth rates at 60 percent, and weighting normalized service population at 40 percent, using the same general equation as the previous example (using hypothetical figures), as shown below:

Total available funds = $2.5 million

County X normalized inverse birth rate = 12%

County X normalized service population = 5%

County X small county funding = $2,500,000 × [(12% × 60%) + (5% × 40%)] = **$230,000**

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

2. Two-Component Variable Formula *(continued)*

The Small County Workgroup selected this 60 percent normalized inverse birth rate and 40 percent normalized service population approach from four different two- and three-component formula options. This option results in a generally linear, and upward sloping, total funding line (tobacco revenues plus small county funds). Generally, the larger small counties (in terms of birth rates) receive more total funds than the smaller small counties, but the formula option takes into account variations in birth rate and service population.

This two-component variable formula provides somewhat less funding to the two smallest counties, as compared to the FY 2008/09 small county funding levels. Alpine County and Sierra County will each receive approximately $40,000 less in small county funding in FY 2011/12, as compared to FY 2008/09. However, the fourteen remaining small counties receive more small county funds in FY 2011/12 than they did in FY 2008/09. This two-component variable formula is less robust, and less complex than the three-component variable formulas described below. This two-component approach does not utilize the inverse population density factor, which because of averaging, may not accurately represent "rurality".

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

3. Three-Component Variable Formula

We also considered a series of three-component variable formula options. These formula options utilize normalized inverse birth rates, normalized inverse population densities, and normalized service population. Again, each variable is capped at 6.25 percent (prior to normalization), to help avoid disproportionately favoring outlier counties. This more complex, and robust, approach attempts to take into account the varying needs of small population counties. Counties with low birth rates need greater amounts of funding because their birth rate monthly payments are low. Counties with low population densities need greater amounts of small county funding, because it is more difficult to reach children and parents in isolated areas (a surrogate measure of "rurality"). Counties with more children, age zero to five, need greater amounts of funding because they have a larger population to serve.

With three-component variable formula, the relative weighting between the three factors is important. Our goal was to develop logical and proportional weighting factors. We determined that in all cases, normalized inverse birth rates should receive the majority of weighting, because the key application for small counties is the lack of funding for counties with few births. Through our analysis, we selected a normalized inverse birth rate weighting of either 60 percent, or 70 percent. Using a lower normalized inverse birth rate weighting, of 50 percent, resulted in under-compensating the smallest counties, while using a higher normalized inverse birth rate weighting of 80 percent, overcompensated the smallest counties.

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

3. Three-Component Variable Formula *(continued)*

We determined that, for consistency, the remaining two factors should be weighted evenly. We evaluated two different three-component weighting allocations: (1) 60 percent normalized inverse birth rate, 20 percent normalized inverse population density, and 20 percent normalized service population, and (2) 70 percent normalized inverse birth rate, 15 percent normalized inverse population density, and 15 percent normalized service population.

The following is an example of the 60%:20%:20% three-component variable formula option (using hypothetical figures):

Total available funds = $2.5 million

County X normalized inverse birth rate = 12%

County X normalized inverse population density = 8%

County X normalized service population = 5%

County X small county funding = $2,500,000 × [(12% x 60%) + (8% × 20%) + (5% × 20%)] = **$245,000**

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

3. Three-Component Variable Formula *(continued)*

NewPoint Group's preferred formula approach was the 60%:20%:20% formula option because it best met our specific selection criteria. This formula option would not over-compensate or under-compensate the small county outliers, and all counties would receive more small county funds in the initial funding year (FY 2011/12) than they did in FY 2008/09 (a Pareto optimal condition). This option results in a generally linear, and upward sloping, total funding line (tobacco revenues plus small county funds). Generally, the larger small counties (in terms of birth rates) receive more total funds than the smaller small counties, but the formula option takes into account variations in geography and service needs.

We did have theoretical concerns about the accuracy of the inverse population density factor in this three-component variable formula. Because the inverse population density factor is an average, it does not take into account the actual geographical distribution of the population within the county. For this reason, the Workgroup did not select this three-component variable formula. We also considered a three-component variable formula with 70%:15%:15% weighting, but rejected this option because it over-compensated the smallest counties.

4. Components of Funding Mechanisms *(continued)*

Small County Distribution Formulas *(continued)*

4. Basic Fixed Formula

Our basic fixed formula approach utilizes the 0.10 percent birth rate threshold. For this formula, we assume that each county should receive combined monthly tobacco tax and small county funding equal 0.10 percent of the overall county share of tobacco tax revenues. The 0.10 percent threshold matches the funding eligibility criteria, thus, all eligible counties would receive some small county funding.

For example (using hypothetical figures):

County share of tobacco tax revenues = $400,000,000

0.10 percent threshold = 0.10% × $400,000,000 = $400,000

County X birth rate (percent of State births) = 0.06%

County X total monthly tobacco tax payments = $400,000,000 × 0.06% = $240,000

County X small county payment = $400,000 - $240,000 = **$160,000**

This formula option requires over 34 percent of the unallocated fund, each year, to meet the 0.10 percent funding levels for all sixteen (16) eligible small counties. In addition, this formula approach assumes that all sixteen (16) counties have the same funding needs, when in reality there are substantial differences between the smallest small counties, and the largest small counties, in terms of service levels, and geography. As a result, we do not recommend the basic fixed formula approach.

4. Components of Funding Mechanisms *(continued)*

Small County Performance Incentives and Accountability

One of the goals of this Small Population County Funding Assessment Project, and of funding allocations in general, was to incorporate performance metrics into the funding allocation methodology. The overall goal of metrics is to ensure that small county funds are "mission critical," that counties maximize effective programmatic services, and that small county funds go to counties with the greatest need. Incorporating performance metrics is important in a program such as First 5, which focuses on results. Ideally, metrics should provide accountability and incentives, without unintended consequenes, while minimizing staff time to compile and monitor metrics. We considered three (3) different types of incentives in developing this aspect of the approach:

1. Metrics related to service performance for the target population (children 0 to 5 years old)
2. A mechanism to ensure fiscal responsibility and accountability
3. An incentive to promote collaboration among small counties, under the assumption that collaborative programs can increase efficiency and effectiveness.

4. Components of Funding Mechanisms *(continued)*

Small County Performance Incentives and Accountability *(continued)*

Incorporating performance incentives and accountability mechanisms into the recommended small county funding approach presents many challenges. While the concept and intent are straightforward, actually determining reasonable and viable mechanisms is not. One key concern is developing meaningful metrics; metrics that could gauge whether small counties are using their small county funds to provide effective programs. Another concern is to develop metrics that would not be overly burdensome to either small county staff preparing the metrics, or to First 5 California staff evaluating the metrics. Metrics should also build on existing county commission reporting requirements, including annual reports and annual audits. Finally, metrics should be seen as tools to ensure accountability and stimulate program improvements, not create indirect incentives to manipulate data and/or fund accounting.

After considering several different types of performance incentives and accountability options, described below, First 5 California will develop a single mechanism. This mechanism will utilize contract terms and conditions to restrict certain uses of small county funds, and to promote accountability in small county fund utilization. Small county funds will be distributed through Local Area Agreements with each county. As part of the conditions of funding, several uses of small county funds will be excluded, for example: capital outlays, food, grants to for-profit companies, and leveraging State funds. In addition, small counties may be required to track their small county funds, and report on how small county funds were utilized in their annual audits.

4. Components of Funding Mechanisms *(continued)*

Small County Performance Incentives and Accountability *(continued)*

Metrics Related to Service Performance

We considered two metrics related to service performance. The first was a minimum performance metric. Under this option, counties would be required to provide services to 50 percent of their eligible population over a two-year period. For example, to be eligible for small county funds, a county with 1,000 eligible children, age zero to five, would need to provide services to 500 different children over a two-year period. Counties would be required to report service levels to First 5 California with their annual reports.

This option addresses the assumption that because the number of children is low, small counties should be able to provide direct services to a greater percentage of children. Counties currently report annual service levels that don't distinguish between multiple services per child; however, many counties already have the capability for unique child identifiers, and First 5 California is developing this capability for all counties.

We did not select this option for several reasons. First, this option only measures contacts with the eligible population, not the quality of service provided to that population. Because counties would be trying to achieve a set number of contacts, the option creates an incentive for quantity of services, not quality of services. Second, due to privacy concerns, parents may be unwilling to identify their children individually. Finally, it is difficult to establish a meaningful metric, as far as percent of children to be served. Some of the smaller counties already provide services to all eligible children within a single year. However, 100 percent service might be too high for some of the larger small counties.

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4. Components of Funding Mechanisms *(continued)*

Small County Performance Incentives and Accountability *(continued)*

Metrics Related to Service Performance *(continued)*

The second metric related to service performance that we considered was to require a one-page addition to the existing annual report that all counties prepare for First 5 California. This one-page report would specifically address how small county funds were utilized, including, but not limited to: programs and services, estimated number of participants, leveraging of funds, and collaboration with other counties. First 5 California would prescribe the contents of this one-page report.

This one-page reporting option could provide a relatively straightforward mechanism for small counties to justify their receipt of small county funds. This option is also subjective, which could be seen as both positive and negative. On the negative side, it might be difficult to determine whether a small county's activities meet eligibility criteria. On the positive side, if the report showed that a small county was underperforming, First 5 California staff could work with the county to improve services, with the ultimate benefit of improving effectiveness of First 5 services in the county. We did not select this option because it was seen as too subjective, and perhaps more burdensome than utilizing the recommended approach.

4. Components of Funding Mechanisms *(continued)*

Small County Performance Incentives and Accountability *(continued)*

Mechanisms to Ensure Fiscal Responsibility and Accountability

To address fiscal responsibility and accountability, we considered options to incorporate the existing "trigger" approach, with some modifications. The current small county funding mechanisms include a trigger – if an otherwise eligible small county exceeds this trigger, they do not receive small county funds. The concept is that small counties with large uncommitted fund balances do not receive small county funding. Small county funding is provided as a way to support counties with inadequate funds, thus it is not fiscally responsible for First 5 to provide additional small county funding to a county that already has a significant fund balance.

Under the current trigger mechanism, the balance of a small county's uncommitted funds must be equal to, or less than, the sum of (1) their annual tobacco tax revenue or $200,000, whichever is greater, and (2) their administrative augmentation funds from the prior year. This essentially allows a small county to receive their full small county funding if they have one year's revenues available in their uncommitted fund balance. If a county has more than the sum of (1) and (2), above, their small county funding is reduced by that amount.

4. Components of Funding Mechanisms *(continued)*

Small County Performance Incentives and Accountability *(continued)*

Mechanisms to Ensure Fiscal Responsibility and Accountability *(continued)*

In practice, it has been difficult to implement the current trigger mechanism. A problem with the current trigger approach is that in annual audits, funds are classified as either "committed" or "uncommitted", but counties may be able to move funds from one category to the other in order to maintain eligibility. To avoid this issue, we considered an approach that would not distinguish between committed and uncommitted funds. For example, a trigger option could establish a threshold fund balance large enough to allow small counties to operate from month to month and year to year, but low enough that it is not excessive. This approach is also problematic, because new Government Accounting Standards Board (GASB) requirements for "unassigned" and "assigned" funds are not a good representation of a county's fund balance. This is compounded by the fact that county commissions are required to have long-term sustainability plans (i.e. funding for future years in reserve), and by the monthly nature of First 5 funding.

Thus, we do not recommend a trigger mechanism for small county funding. Rather, First 5 California should carefully review the information provided in each small county's annual audit to determine whether they "need" small county funds. The need for a trigger is less critical under the recommended approach, as compared to the current mechanism, because we are only providing small county funds to the smallest, and neediest, counties.

Small County Performance Incentives and Accountability *(continued)*

Incentives to Promote Collaboration Among Small Counties

The third performance mechanism option that we considered creates a direct incentive for small counties to collaborate on either administrative requirements, or programs, or both. The Act specifically notes that: "two or more counties may form a joint county commission, adopt a joint county strategic plan, or implement joint programs, services, or projects." At this point in the history of First 5, forming joint county commissions and strategic plans is highly unlikely. However, small counties can be encouraged to combine resources for "programs, services, or projects." This type of collaboration should be encouraged, and facilitated, particularly among small counties with limited resources.

Our proposed incentive mechanism would utilize a portion of small county available funds, and distribute it evenly among eligible small counties that are participating in a collaborative program, as reported to First 5 California. Small counties could collaborate with other small or large counties, but only the small counties would be eligible for the "bonus". This approach provides a simple mechanism to provide a small county collaboration "bonus" to encourage small counties to work together.

We do not recommend that First 5 California implement a county collaboration bonus at this time. While the concept of promoting collaboration is attractive, collaboration does not necessarily improve efficiency or service quality. Also, determining whether a particular activity is actually collaborative may be subjective. Finally, this option reduces the amount of money available for formula-based small county funding, which provides a more direct mechanism for supporting small counties.

5. Recommended Funding Approach

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5. Recommended Funding Approach

The objective of this Small Population County Funding Assessment Project is to develop a funding mechanism for small population counties that:

- Can be funded over the long-term – reflecting declining tobacco tax revenues
- Provides additional funds to counties with low birth rates, that do not receive sufficient funds under the statutory birth rate allocation to operate effective First 5 programs
- Provides resources to assist small population counties in addressing challenges associated with small population county rural characteristics
- Meets, to the maximum extent possible, the baseline principles and assumptions
- Is simple to understand, equitable, transparent, and easy to implement.

NewPoint Group developed and analyzed several funding alternatives. Each alternative included four (4) components:

1. Eligibility – rules to determine who receives small population county funding
2. Total Funds Available – rules to determine the overall availability and allocation of funds
3. Distribution – formulas or algorithms to allocate funds between eligible counties
4. Incentives and Accountability – mechanisms to ensure small county accountability and create incentives to improve performance.

After extensive analysis of the component options described in the last section, and discussion with First 5 California and the Small County Workgroup, we selected our small population county funding recommended approach.

5. Recommended Funding Approach *(continued)*

Description of Recommended Approach

The recommended approach for small population county funding allocation consists of specific options for each of the four (4) components described in the previous section:

1. **Eligibility** – Eligible small counties will be defined as counties with a percent of State births less than, or equal to, 0.10 percent (county births/State births =< 0.10%). Under this definition, using the most recent actual 2008 DOF's birth rates, there will be sixteen (16) counties eligible for small population county funding: Alpine, Amador, Calaveras, Colusa, Del Norte, Glenn, Inyo, Lassen, Mariposa, Modoc, Mono, Plumas, Sierra, Siskiyou, Trinity, and Tuolumne. Because the percent of State births for a given county is relatively stable over time, we do not expect that these sixteen (16) eligible counties will change over the next ten-plus years
2. **Total Funds Available** – Each fiscal year, First 5 California will establish actual small county funding equal to 32 percent of the unallocated fund tobacco tax revenues for the previous fiscal year. Because funding is based on a percentage, the actual dollar amount of small county funding will adjust over time, in exact proportion to the decline in overall tobacco tax revenues. Because total available small county funds are based on prior year tobacco tax revenues, small counties will know their actual yearly allocations close to the beginning of each fiscal year. However, assuming declining tobacco tax revenues, the amount of small county funding in any given fiscal year will actually exceed thirty-two percent, and may be closer to thirty-three (33) percent in the current year
3. **Distribution** – The total funds available to small counties will be allocated between the sixteen (16) eligible counties based on a mathematical formula that takes into account the most recent data for each county's births, and the service population (number of children age zero to five). The formula is needs based, addressing the fact that counties with a low number of births do not receive adequate tobacco tax revenues to operate effective First 5 programs, while still considering the size of the population to be served. The formula utilizes a normalized inverse birth rate proportion, to provide more funds to counties with lower numbers of births.

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5. Recommended Funding Approach *(continued)*

Description of Recommended Approach *(continued)*

The formula utilizes a normalized service population proportion, to provide more funds to counties with a great number of children, age zero to five. These two factors are weighted, so that 60 percent of a county's funds are allocated based on their normalized inverse birth rate proportion, and 40 percent of a county's funds are allocated based on their normalized service population proportion. Below, we provide example calculations[6] for the smallest and largest of the small counties in FY 2011/12, based on projected data for proportions, and 32 percent of the unallocated fund in fiscal year 2010/11 estimated at $3.10 million:

Total available funds = TAF

Normalized inverse birth rate proportion for County X = $NIBR_X$

Normalized service population proportion for County X = $NSPP_X$

County X funds = TAF × [(60% × $NIBR_X$%) + (40% × $NSPP_X$%)]

Alpine County funds = $3,100,000 × [(60% × 13.87%) + (40% × 0.39%)] = **$262,818**

Siskiyou County funds = $3,100,000 × [(60% × 2.34%) + (40% × 8.54%)] = **$149,420**

4. **Incentives and Accountability** - A built-in accountability mechanism will help ensure that counties spend their small county funds to support effective First 5 programs. As part of the Local Area Agreement mechanism to distribute small county funds, First 5 California will include specific contract conditions to restrict certain uses of small county funds, and to require accountability of small county fund expenditures.

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[6] This example utilizes projected data in the mathematical formula for demonstrative purposes, whereas in actuality, the Commission will utilize the most current actual data.

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5. Recommended Funding Approach *(continued)*

Justification for Recommended Approach

In developing our recommended small population county funding approach, NewPoint Group worked closely with First 5 California, and the Small County Workgroup. NewPoint Group developed and analyzed a number of different funding mechanisms, using different component options, as described in the previous section. NewPoint Group met several times with First 5 California, and twice with the Small County Workgroup to obtain input on the various mechanisms we were considering.

During the first meeting with the Workgroup, on February 26, 2010, the Workgroup provided input on the baseline principles and assumptions, four funding components, and three preliminary formula alternatives. At the second meeting, on April 8, 2010, the Workgroup considered several issues related to small county funding. Workgroup members discussed a related issue regarding small county ability to qualify for First 5 program funds (separate from small county funds), and also worried that beyond five years, the proposed funding approach would not provide adequate revenues for small counties to sustain First 5 county commissions. At the meeting, the Workgroup and First 5 California reached general agreement on several key issues, including: (1) First 5 California's commitment to consider approaches that could include small counties in future program-related funding endeavors; (2) a commitment among local county commissions to explore creative mechanisms to provide additional support to small counties within the existing statutory structure (recognizing there are several barriers to overcome); and (3) First 5 California's acknowledgement of the Workgroup's request to revisit the issue of a baseline funding level in the future.

5. Recommended Funding Approach *(continued)*

Justification for Recommended Approach *(continued)*

Once these concerns were alleviated, the Workgroup reviewed several formula options, and selected between options to determine: (1) whether to base small county funding on the prior, or current, fiscal year, and (2) the final small county funding formula.

In selecting among the various component options, we considered a number of overall criteria, as follows:

Overall Criteria

- Option meets the guiding principles and assumptions
- Allocation method reflects program need
- The allocation method includes an accountability mechanism
- Overall funding level (percent of First 5 California's unallocated funds) is based on logical and rational factors
- Eligibility is based on a clear definition of "small county"
- Eligibility is linked to need
- Allocation formula is based on logical and rational factors
- Allocation formula capping levels are based on logical and rational factors.

5. Recommended Funding Approach *(continued)*

Justification for Recommended Approach *(continued)*

The various alternatives that we considered generally met these overall criteria. In addition, to help us evaluate and select among a number of potential formula options, we considered the following specific formula selection criteria:

Specific Selection Criteria for Formula Options

- Provide the maximum number of small counties projected to receive more small county funds in the initial funding year (FY 2011/12), than they did in FY 2008/09
- Avoid over-compensated outliers (because of their extremely low numbers of births, Alpine and Sierra counties are considered outliers, even among the other small counties)
- Avoid under-compensated outliers
- Result in a generally linear, and upward sloping, (versus equitable) total funding line, from small to large small counties, due to material differences in program populations and county characteristics
- Contain a formula that is robust (e.g. takes multiple factors into account) and results in relatively smooth distribution of funds across counties
- Contain logical and proportional weighting factors for multi-component variable formulas.

5. Recommended Funding Approach *(continued)*

Justification for Recommended Approach *(continued)*

We believe that the recommended approach meets the overall criteria, and generally meets the specific selection criteria for formula options. The recommended approach formula reflects need, incorporating the two key need-based factors (birth rates and service population); results in fourteen of sixteen (16) counties receiving more small county funds in FY 2011/12 than they did in FY 2008/09[7] (based on best available projections); generally supports small county needs; utilizes logical weighting factors; and provides a generally upward sloping linear distribution of funding.

We also compared the recommended approach against the five (5) objectives of this Small Population County Funding Assessment Project, listed on page 65, to develop a funding mechanism for small population counties that:

1. Can be funded over the long-term – reflecting tobacco tax revenues
   - Because total funding is based on a set percentage of First 5 California's unallocated fund revenues, the recommended approach is sustainable. Funds for small counties will decline, over time, at the same rates as all other First 5 funds. At the same time, small county funding will not "bankrupt" the unallocated fund

[7] Alpine County and Sierra County will each receive approximately $40,000 less in small county funding in FY 2011/12, as compared to FY 2008/09.

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5. Recommended Funding Approach *(continued)*

Justification for Recommended Approach *(continued)*

2. Provides additional funds to counties with low birth rates, that do not receive sufficient funds under the statutory birth rate allocation to operate effective First 5 programs
   - The allocation formula distributes 60 percent of total available funds based on a normalized inverse birth rate proportion, thus, counties with fewer births receive more funds
   - The allocation formula distributes 40 percent of total available funds based on a normalized service population proportion, thus small counties with a greater number of eligible children receive more funds
3. Provides resources to assist small population counties in addressing costs associated with small population county rural characteristics
   - By focusing on the smallest sixteen counties, the recommended approach provides these generally rural counties with a baseline funding level that should allow them to meet their program needs
4. Meets, to the maximum extent possible, the baseline principles and assumptions
   - We considered the baseline principles and assumptions in developing all of our potential alternatives, and in selecting the recommended approach. The next section provides a summary of how our recommended approach measures up against the eighteen baseline principles and assumptions

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5. Recommended Funding Approach *(continued)*

Justification for Recommended Approach *(continued)*

5. Is simple to understand, equitable, transparent, and easy to implement

   - While the normalized inverse birth rate and normalized service population proportions initially appear complicated, the basic calculations and approach are relatively simple
   - The recommended approach is equitable, providing more funding to counties with greater need, yet capping (normalizing) outlier counties so that no county receives disproportionately more than a one-sixteenth (1/16) share
   - The recommended approach is transparent – eligibility criteria and the amount of total available funds are unambiguous, the formula clearly illustrates how funding is allocated between counties, and counties can estimate their small county funding shares based on mathematical calculations, utilizing published data

Assessment of Recommendation in Terms of Baseline Principles and Assumptions

Given the challenges inherent in developing viable solutions to small population county funding, NewPoint Group's approach was to first establish a set of guiding principles and assumptions, which we utilized to direct development of specific funding mechanisms, and in selecting our recommended approach. In **Table 5-1,** on the next page, we assess performance of the recommended approach for each of the eighteen (18) baseline principles and assumptions.

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5. Recommended Funding Approach *(continued)*

Table 5-1
Performance of Recommended Approach in Meeting Baseline Principles and Assumptions

No.	Principle or Assumption	Performance of Recommended Approach
	Efficiency	
1.	New small population county funding mechanisms should meet existing statutory guidelines. There should be no new legislative solutions	The recommended approach does not require legislation; it does require Commission approval
2.	New small population county funding mechanisms should be aligned with the First 5 California's mission and vision	The recommended approach is aligned with the First 5 California's mission and vision
3.	The First 5 revenue stream should not be intended to cover all of a county's needs for children and families, and counties should seek opportunities for leveraging funds	The recommended approach is intended to provide adequate funds for a county to operate an effective First 5 program. Counties may utilize these funds as matching funds, to support programs, and/or for administration, at their discretion
4.	There should be potential for improved efficiency and/or economy of scale by combining some administrative and/or program functions of small counties	The recommended approach does not provide any direct incentives for combining small county functions; however, in order to maximize their effectiveness with limited funds, First 5 encourages small counties to collaborate
	Equity	
5.	The definition of "small population county" should be clear, and congruent with broader State and/or federal programmatic definitions of small and/or rural counties	Small counties are defined as counties with less than, or equal to, 0.10 percent of State births. The resulting 16 small counties are all non-Metropolitan counties by OMB definitions, and fit USDA rural criteria
6.	While a shared funding approach with large counties is in theory attractive, there are no existing statutory mechanisms to effectively administer and enforce such an approach. As a result, small county funding approaches should utilize First 5 California's unallocated funds	The recommended approach utilizes a set percentage of lagged annual First 5 California unallocated fund revenues

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5. Recommended Funding Approach *(continued)*

Table 5-1
Performance of Recommended Approach in Meeting Baseline Principles and Assumptions *(continued)* *Page 2 of 4*

No.	Principle or Assumption	Performance of Recommended Approach
	Equity *(continued)*	
7.	Use of First 5 California's unallocated funds to support small population counties at the statewide level should not preclude counties from developing an additional voluntary funding solution to augment State small county funding, through the First 5 Association of California, or through other mechanisms	First 5 California can only encourage large counties and the First 5 Association of California to develop their own mechanism for small county funding. Such an additional funding source for small counties may be more critical in several years, as tobacco tax revenues decline further
8.	A new small population county funding approach should be simple, equitable, transparent, and consider program needs	The recommended approach provides a relatively straightforward formula to allocate funds. The formula balances simplicity and equity. The approach addresses the range of program needs and county characteristics. The approach provides specific eligibility criteria, the formula clearly illustrates how funds are allocated between counties, and the allocations are based on mathematical calculations and published data
	Inclusivity	
9.	It is the intent that First 5 is a statewide program, and that First 5 services be available in all counties of the State that wish to provide a program	The recommended approach provides additional funds to the sixteen smallest counties, many of which might not otherwise have adequate funds to operate an effective First 5 program
10.	The existing statutory funding allocation approach does not provide adequate funding necessary for small population counties to operate an effective program. Small population county funding should help ensure that there is sufficient capacity and infrastructure in these counties to achieve goals of Proposition 10	The sixteen small counties that will receive funds have the lowest percent of State births, and thus the lowest monthly tobacco tax revenues. The recommended approach should supplement existing fund sources to support these counties in achieving the goals of Proposition 10

5. Recommended Funding Approach *(continued)*

Table 5-1
Performance of Recommended Approach in Meeting Baseline Principles and Assumptions *(continued)* *Page 3 of 4*

No.	Principle or Assumption	Performance of Recommended Approach
	Inclusivity *(continued)*	
11.	Small counties incur unique operating challenges, as compared to large counties, due to increased geographic distances, inclement weather, reduced economies of scale, and lack of infrastructure. These challenges result in different costs for small counties	By focusing on the smallest sixteen counties, the recommended approach provides these generally rural counties with a baseline funding level that should allow them to meet their program needs
12.	Small population county First 5 programs are especially important due to the limited number of other support systems for children, aged zero to five, in rural areas	The recommended approach should provide adequate funds for the sixteen small counties to operate effective First 5 programs, for at least the next several years. At this point, it is difficult to predict the status of First 5 programs beyond a ten-year time horizon
	Accountability	
13.	The tobacco tax revenues that support First 5 at the State and county levels are declining; new small population county funding solutions must reflect this declining revenue source	The recommended approach utilizes a set percentage of the unallocated fund revenue for each fiscal year. Thus, the total amount of funding for small counties is sustainable, over time, as tobacco tax revenues decline. Small county funding will decline at the same rate as all other First 5 revenues
14.	First 5 California and county commissions should maximize dollars allocated to programs, as compared to administration	The recommended approach does not provide funds directly for administration. Through the small county funds reporting mechanism, small counties will be encouraged to maximize expenditures on programs, and on quality services provided directly to children age zero to five

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5. Recommended Funding Approach *(continued)*

Table 5-1
Performance of Recommended Approach in Meeting Baseline Principles and Assumptions *(continued)* *Page 4 of 4*

No.	Principle or Assumption	Performance of Recommended Approach
	Accountability *(continued)*	
15.	A new small population county funding approach should be flexible, and sustainable over the long term	By utilizing a series of percentages, the recommended approach is flexible and self-adjusting over time. The recommended approach will utilize the most recent available population and birth data, thus incorporating actual data shifts soon after they occur
16.	A new funding approach should provide performance incentives, create incentives to reduce administrative costs, and provide built-in accountability for small population counties. There is no need for an administrative line-item funding guarantee, but counties should receive adequate revenue to cover both programs and administration, at their own discretion	The recommended approach includes a built-in accountability mechanism. Small counties will receive funds through a Local Area Agreement. As part of the conditions of funding, counties will be required to report how small county funds were utilized. The approach does not include an administrative line-item
17.	Small population counties should be able to provide more hands-on and direct services to children and families because there are fewer children, aged zero to five, in these counties	Small counties will be required to report to First 5 on how their small county funds were utilized, but at this point will not be held to a certain number of service contacts
18.	Small population counties with a significant fund balance should utilize those resources, and do not require supplemental small population county funding from First 5 California	We considered incorporating a “trigger” provision, similar to the current small county funding mechanisms. However, changes in government accounting procedures will result in two fund classifications, neither of which provides a good representation of fund balances. First 5 California will review small county audits to determine if, and how, small county funds were utilized

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5. Recommended Funding Approach *(continued)*

Analysis of Recommended Approach – Three Year Assessment of Funding, Costs, and Benefits

The tables and exhibits on the next several pages illustrate the estimated total costs, and county-specific small county funding allocations, for the sixteen eligible counties over the first three-year period, from FY 2011/12, to FY 2013/14. These are the three fiscal years for which the Commission is being asked to approve the recommended funding approach. These are preliminary estimates based on current and projected tobacco tax revenue, county births, and service population.[8] In the final phase of this project, we will be conducting an actuarial analysis, and may further refine these projections. However, at this point in time, these analyses are based on the best available data and estimates.

The data sources of these analyses are as follows:

- Current mechanism FY 2008/09 small county funds, provided for comparison, are based on actual small county $200K and administrative payments to small counties
- Birth rate is based on DOF projections for the previous calendar year. For FY 2011/12, we utilize projected county births for 2010
- Service population is based on most recent DOF county populations, by age. For FY 2011/12, we utilize 2010 projected populations by age
- Tobacco tax revenue is based on First 5 figures through FY 2013/14.

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[8] These examples utilize projected data in the mathematical formula for demonstrative purposes, where as in actuality, the Commission will utilize the most recent actual data.

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5. Recommended Funding Approach *(continued)*

Exhibit 5-1, on the next page, provides the estimated total small county funding expenditures for three fiscal years 2011/12, through 2013/14. The FY 2008/09 small county funding is shown for comparison. Because total small county funding will be based on 32 percent of lagged unallocated fund revenues, small county funding will decline at the same rate as tobacco tax revenues, with a one year lag.

Exhibit 5-2, on page 80, illustrates the FY 2011/12 recommended approach small county funding and tobacco tax revenue for each of the sixteen eligible small counties. For comparison purposes, Exhibit 5-2 also illustrates actual FY 2008/09 small county funding (as a yellow line). Exhibit 5-2 illustrates that most counties are projected to receive more small county funding in FY 2011/12, under the recommended approach, than they did in FY 2008/09. Generally, the smaller counties, in terms of birth rates, receive more small county funding, but less total funding (tobacco tax revenue plus small county funding), than the larger small counties. Small counties that have a larger service population, and/or are less densely populated, receive relatively more small county funding than more densely populated small counties, and counties with fewer children age zero to five.

Exhibit 5-3, on page 81, and **Exhibit 5-4,** on page 82, illustrate the same projected information for FY 2012/13 and FY 2013/14, respectively. Even after three (3) years of the recommended small county funding approach, thirteen (13) of the sixteen (16) small counties receive approximately more, or the same, small county funding as they did in FY 2008/09. After three years, the two smallest counties, Alpine and Sierra, receive approximately $60,000 less than they did in FY 2008/09.

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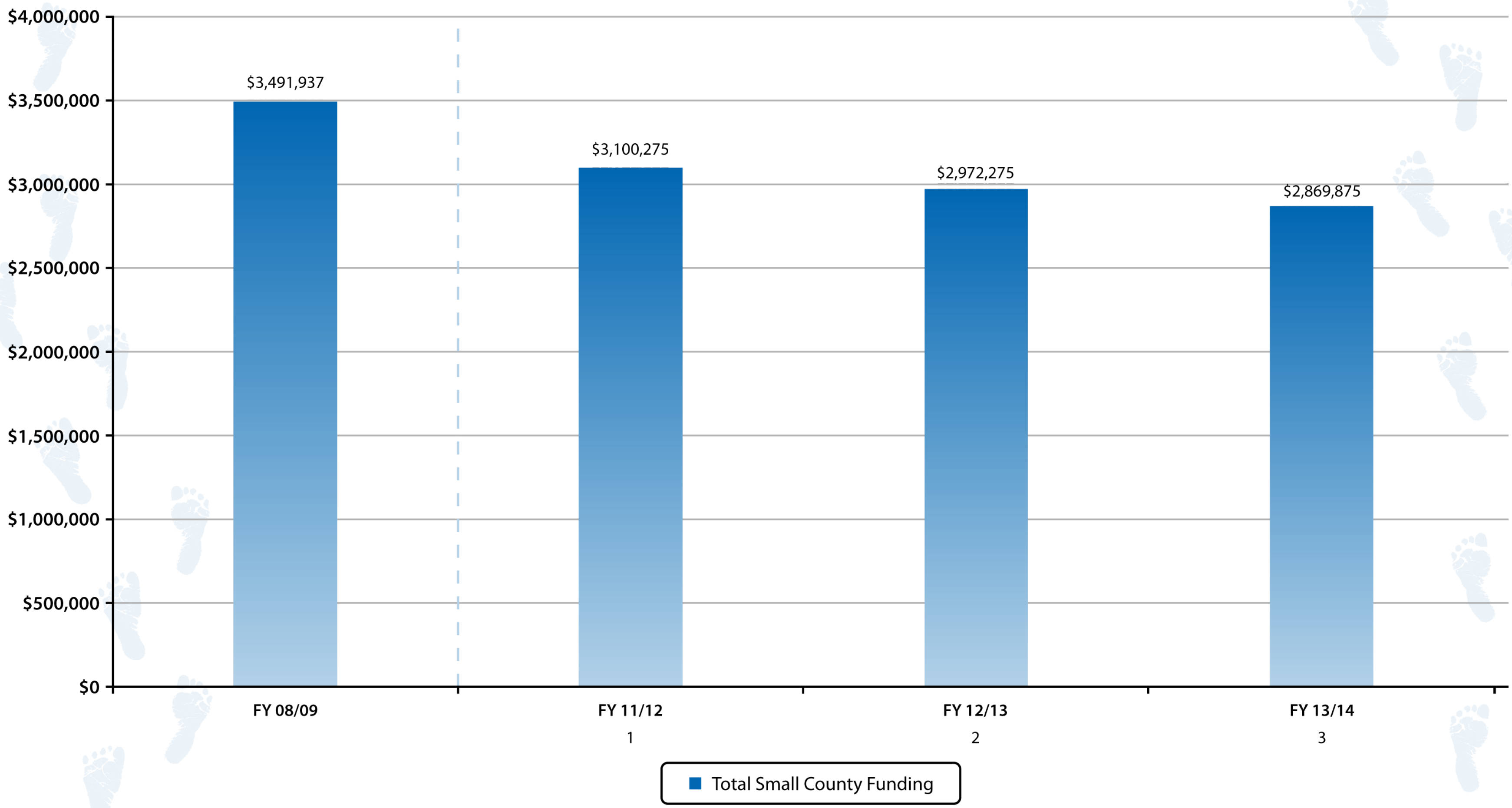
5. Recommended Funding Approach *(continued)*

Exhibit 5-1
Total Small County Funding, for FY 2008/09 (Current Mechanism), and FY 2011/12 to FY 2013/14 (Recommended Approach)



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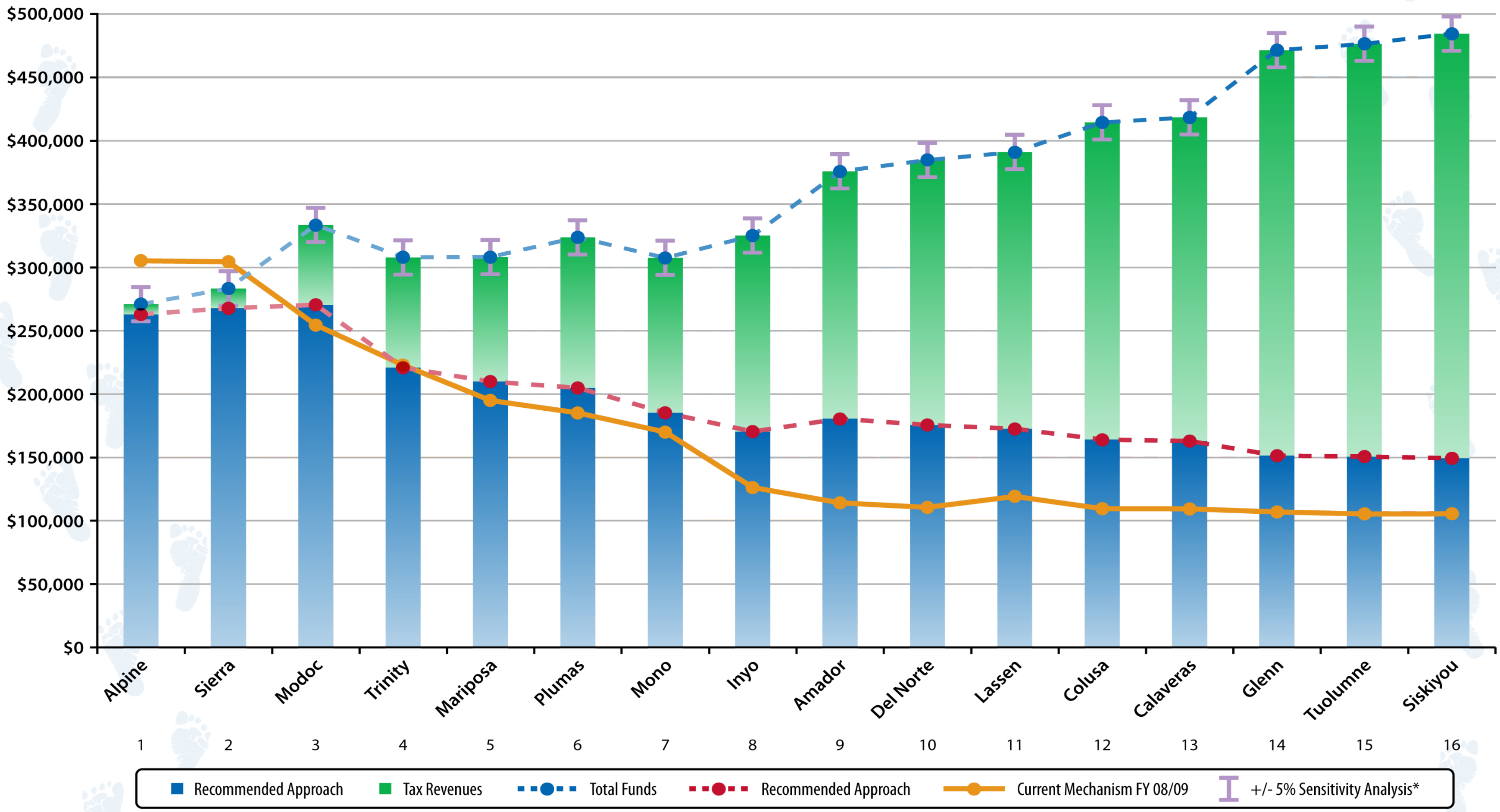
5. Recommended Funding Approach *(continued)*

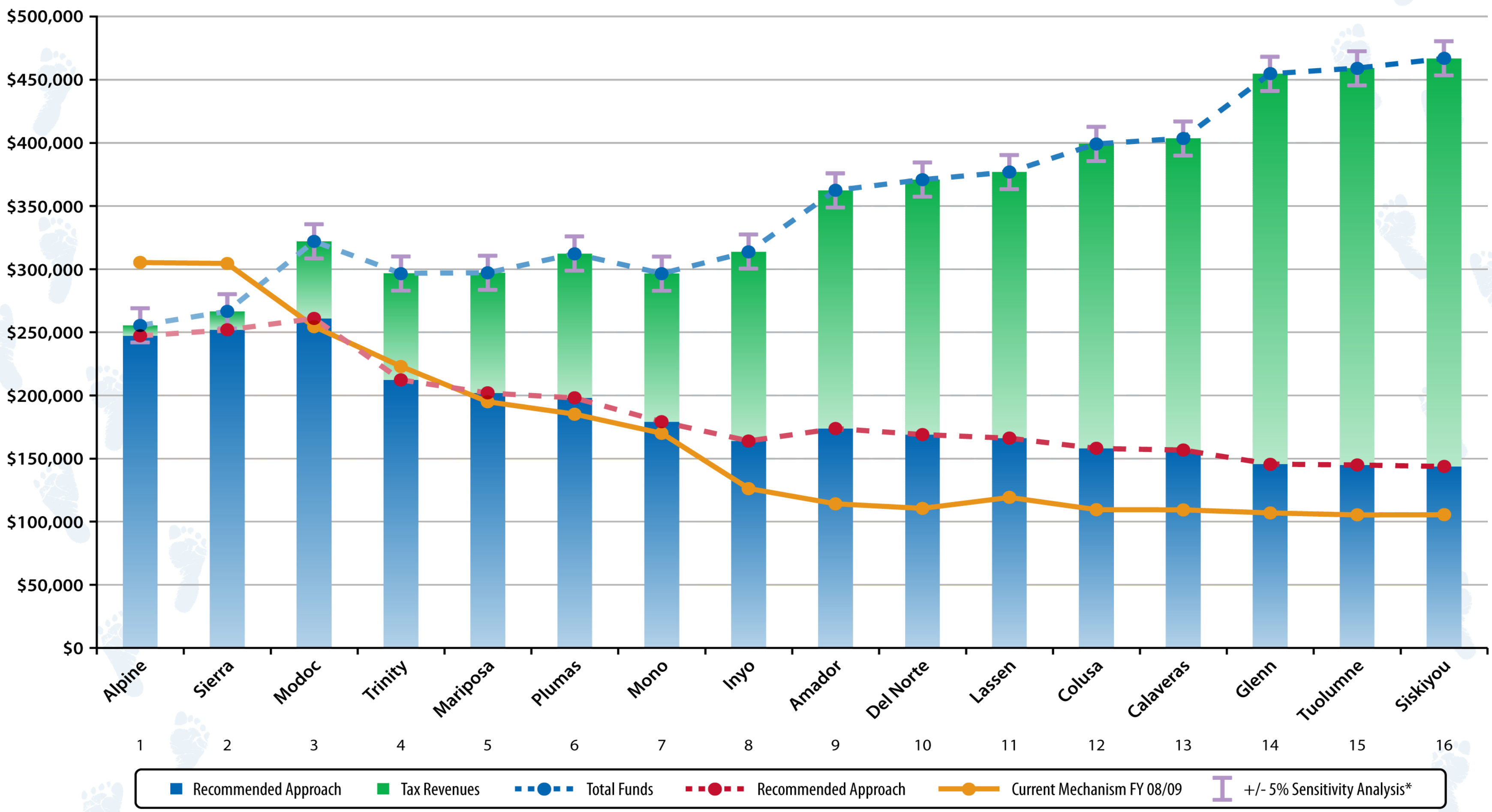
Exhibit 5-2
Small County Funding Recommended Approach
FY 2011/12



* The sensitivity analysis for total funds reflects a +/- 5 percent range for small county funding, to reflect that estimated small county funds are based on DOF projection data for births and service population, both of which could shift. For example, due to the impact of minor changes in births and/or service population, Modoc County could actually be roughly the same as Trinity or Mariposa County.

5. Recommended Funding Approach *(continued)*

Exhibit 5-3
Small County Funding Recommended Approach
FY 2012/13



* The sensitivity analysis for total funds reflects a +/- 5 percent range for small county funding, to reflect that estimated small county funds are based on DOF projection data for births and service population, both of which could shift. For example, due to the impact of minor changes in births and/or service population, Modoc County could actually be roughly the same as Trinity or Mariposa County.

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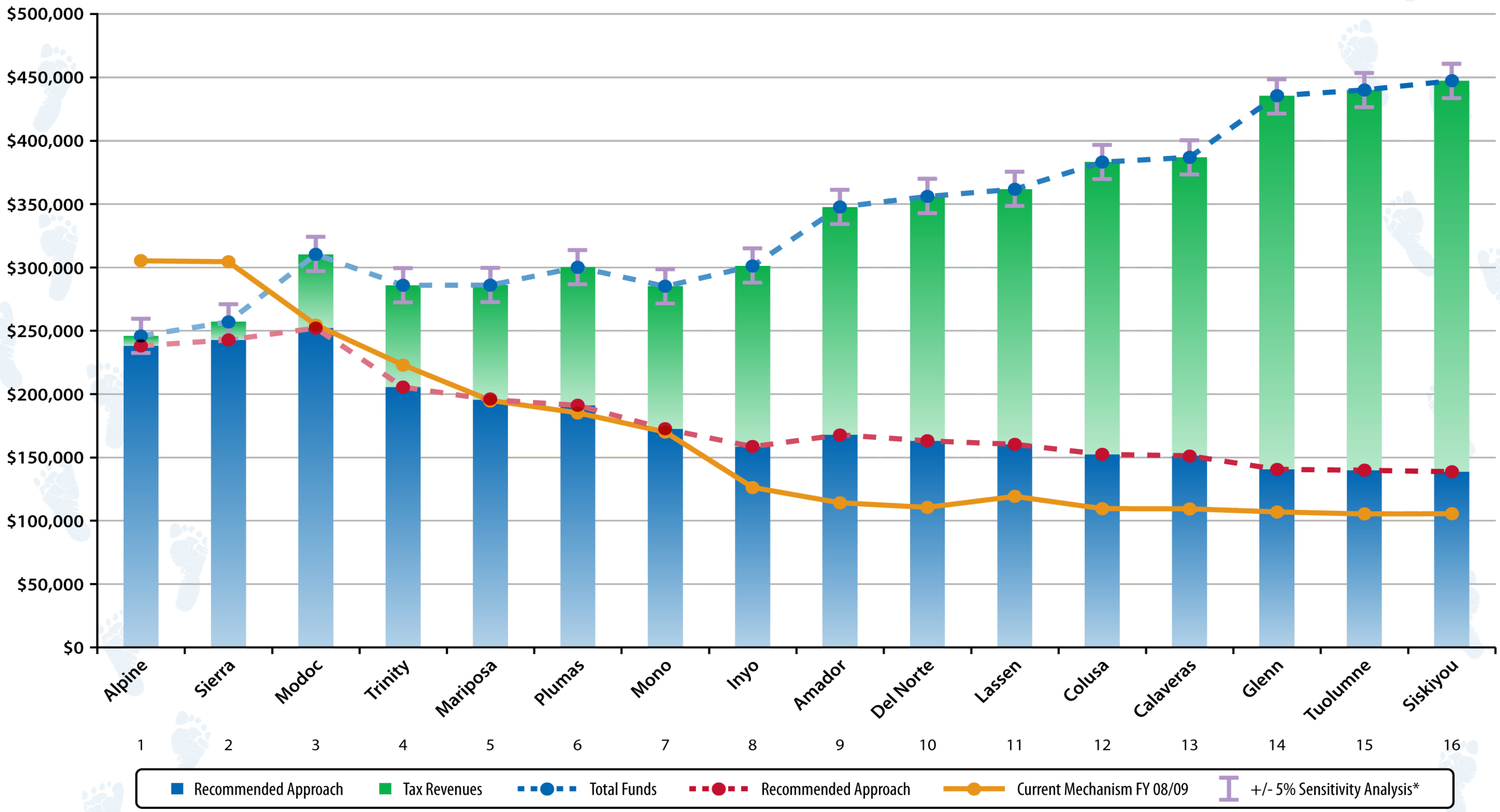
5. Recommended Funding Approach *(continued)*

Exhibit 5-4
Small County Funding Recommended Approach
FY 2013/14



* The sensitivity analysis for total funds reflects a +/- 5 percent range for small county funding, to reflect that estimated small county funds are based on DOF projection data for births and service population, both of which could shift. For example, due to the impact of minor changes in births and/or service population, Modoc County could actually be roughly the same as Trinity or Mariposa County.

5. Recommended Funding Approach *(continued)*

Because tobacco revenues will continue to decline, it is difficult to envision precisely how First 5 programs will be functioning more than five years from now. However, we can estimate small county funding after three years of the recommended approach. In FY 2013/14, three (3) counties receive more, or the same, small county funding as they did in FY 2008/09. Only Alpine, Sierra, and Trinity counties receive less small county funding, as compared to FY 2008/09. The two smallest counties will face the largest reduction in small county funds, although they still will receive more small county funding than most of the other sixteen (16) small counties.

Table 5-2, on the next page, provides the actual FY 2008/09 tobacco tax revenues and small county funds for the sixteen eligible small counties, and estimated tobacco tax revenues and small county funds under the recommended funding approach for three years, from FY 2011/12 to FY 2013/14. Table 5-2 illustrates that for any given small county, the reduction in small county funds from year to year is relatively small, and roughly proportional to the total amount of small county funding each county receives.

Table 5-3, on page 86, provides a summary table of data sources and time periods for calculating small county funding under the recommended approach.

D R A F T

5. Recommended Funding Approach *(continued)*

Table 5-2
Three-Year Comparison of Small County Funds
Small County Funding Recommended Approach
FY 2011/12 to FY 2013/14

No.	County	Actual FY 2008/09			Estimated FY 2011/12			Estimated FY 2012/13			Estimated FY 2013/14		
		Tax Revenues	Small County Funds	Total	Tax Revenues	Small County Funds	Total	Tax Revenues	Small County Funds	Total	Tax Revenues	Small County Funds	Total
1	Alpine	$9,827	**$305,173**	$315,000	$7,966	**$262,981**	$270,947	$8,255	**$247,166**	$255,421	$7,794	**$238,113**	$245,907
2	Sierra	10,571	**304,429**	315,000	15,269	**267,935**	283,204	14,606	**251,916**	266,522	14,389	**242,699**	257,088
3	Modoc	60,403	**254,597**	315,000	63,067	**270,467**	333,534	60,963	**260,950**	321,913	58,155	**252,156**	310,311
4	Trinity	92,116	**222,884**	315,000	86,965	**220,901**	307,866	84,459	**212,221**	296,680	80,338	**205,499**	285,837
5	Mariposa	120,052	**194,948**	315,000	98,251	**209,899**	308,150	95,255	**201,869**	297,124	90,531	**195,554**	286,085
6	Plumas	129,866	**185,134**	315,000	118,831	**204,902**	323,733	114,306	**197,900**	312,206	109,116	**191,108**	300,224
7	Mono	144,966	**170,034**	315,000	122,150	**185,307**	307,457	117,481	**179,092**	296,573	112,714	**172,385**	285,099
8	Inyo	188,760	**126,240**	315,000	154,679	**170,429**	325,108	149,867	**163,854**	313,721	142,691	**158,458**	301,149
9	Amador	206,882	**114,135**	321,017	195,174	**180,603**	375,777	188,604	**173,703**	362,307	179,862	**167,803**	347,665
10	Del Norte	275,590	**110,527**	386,117	209,115	**175,622**	384,737	201,940	**168,936**	370,876	193,052	**163,036**	356,088
11	Lassen	195,554	**119,176**	314,730	218,409	**172,655**	391,064	210,830	**166,093**	376,924	201,446	**160,327**	361,773
12	Colusa	293,711	**109,576**	403,287	250,275	**164,154**	414,429	241,312	**157,936**	399,248	230,823	**152,397**	383,220
13	Calaveras	296,729	**109,417**	406,146	255,586	**162,944**	418,529	247,027	**156,631**	403,658	235,619	**151,290**	386,909
14	Glenn	343,542	**106,959**	450,501	319,980	**151,462**	471,442	309,260	**145,541**	454,801	294,974	**140,572**	435,546
15	Tuolumne	373,742	**105,372**	479,114	325,955	**150,627**	476,582	314,341	**144,829**	459,170	300,370	**139,807**	440,177
16	Siskiyou	372,234	**105,452**	477,686	335,249	**149,387**	484,636	323,231	**143,638**	466,869	308,763	**138,671**	447,434
	Total	$3,114,545	$2,644,053	$5,758,598	$2,776,920	$3,100,275	$5,877,195	$2,681,738	$2,972,275	$5,654,013	$2,560,637	$2,869,875	$5,430,512

Notes: Estimated tax revenues and small county funds are based on projection data for tobacco tax revenues, birth rate, and service population.
Sources: Tobacco tax revenues are based on actual FY 2008/09 revenues, and First 5 California data for FY 2009/10 to FY 2013/14.
Birth rate is based on Department of Finance (DOF) projections for the previous calendar year.
Service population is based on DOF county projections, by age, for July 2010.

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5. Recommended Funding Approach *(continued)*

Table 5-3

Data Sources and Time Periods for Small County Funding Recommended Approach

Funding Approach Component	Data Source	Time Period	Typical Availability	Expected Data for FY 2011/12
Eligibility – number of births, by county (0.10 percent of State births)	California Department of Public Health	Most current actual birth data, available on July 1st of start of each fiscal year (the same data as is utilized for monthly tobacco revenue calculations)	One to two year time lag	Calendar year 2009 or calendar year 2010 actual birth data, whichever is available on July 1st, 2011
Total available funds – 32 percent of unallocated fund revenues in previous fiscal year	First 5 California	Previous fiscal year	Shortly after the end of the fiscal year	FY 2010/11 unallocated fund revenues for FY 2011/12 small county funds
Distribution formula – number of births, by county, to determine the normalized inverse birth rate proportion	California Department of Public Health	Most current actual birth data, available on July 1st of start of each fiscal year (the same data as is utilized for monthly tobacco revenue calculations)	One to two year time lag	Calendar year 2009 or calendar year 2010 actual birth data, whichever is available on July 1st, 2011
Distribution formula – population, by age and county, to determine normalized service population proportion	California Department of Finance	Calendar year data, available on July 1st of start of each fiscal year	Two-year time lag, typically available in May	Calendar year 2009 data for FY 2011/12

5. Recommended Funding Approach *(continued)*

Comparison of Recommended Approach to Status Quo

Table 5-4, starting on the next page, provides a comparison of the recommended approach with the status quo (current funding mechanism). The first column of Table 5-3 identifies specific goals, objectives, and/or criteria for a viable small population county funding solution. For each of these goals, objectives, and/or criteria, we provide a summary of how the recommended approach and current mechanism compare. As Table 5-3 illustrates, the recommended approach is superior to the status quo on any point of comparison.

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5. Recommended Funding Approach *(continued)*

Table 5-4

Comparison of the How Recommended Approach and Current Mechanism Meet General Objectives and Criteria for Small County Funding

Page 1 of 3

Small County Funding		Recommended Approach	Current Mechanism
Overall Characteristics	Can be funded over the long-term	Yes – small county funding levels would be linked to tobacco tax revenues, with both declining (or increasing) at the same rate	No – small county funding levels are increasing annually, with a greater number of counties receiving more funds. Calculated funding exceeded the $3.5 million cap in FY 2009/10, and will require a higher percent of unallocated fund revenue each future year
	Meets guiding principles and assumptions	Yes – where applicable, the recommended approach meets our guiding principles and assumptions	No – the current mechanism does not meet many of the guiding principles and assumptions
Eligibility Criteria	Eligibility is based on a clear definition of "small county"	Yes – counties with percent of state births less than, or equal to, 0.10 percent (16 counties)	No – number of eligible counties varies, based monthly tobacco tax revenue and funding equations
	Defines eligibility linked to need	Yes – counties with the very lowest birth rates are eligible for funding	No – eligibility is based on the current small county payment calculations
Total Available Funds	Overall funding is based on logical and rational factors	Yes – the percent of unallocated funds to determine overall funding would be based on nine years of experience	No – overall funding was determined in FY 2002/03 (when total funds were much higher), based on general consensus at that time between the Commission and First 5 Association

5. Recommended Funding Approach *(continued)*

Table 5-4
Comparison of How Recommended Approach and Current Mechanism Meet General Objectives and Criteria for Small County Funding *(continued)*

Page 2 of 3

Small County Funding		Recommended Approach	Current Mechanism
Funding Allocation Formula	Includes a formula based on need	Yes – formula incorporates low birth rate and service population	No – formula based on predetermined, static, funding levels
	Allocation formula is based on logical and rational factors	Yes – a two-component formula with balanced weighting allocations, favoring birth rates, would provide a logical and rational approach	No – formula was based on recommendations made in the early years of First 5, with relatively little research and no adjustments since then
	Is flexible over time	Yes – by basing total funding levels, eligibility, and distribution formula on percents, small county funding would fluctuate over time, with existing conditions	No – current small county funding formulas are based on set dollar amounts ($200,000 and $125,000). As a result, if continued uncapped, funding would exceed $4.5 million in ten years
	Is simple	Yes – two-component formula appears complicated, but can be separated into simple components	No – includes three different types of funding, two different eligibility criteria, and mathematical formula based on predetermined, static, funding levels
	Is equitable	Yes – small county funding levels would be allocated based on two key factors: low birth rates and number of eligible children	No – provides small county funding to over one-half of the State's counties, diluting the amount that can be provided to the smallest, and neediest, counties

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5. Recommended Funding Approach *(continued)*

Table 5-4

Comparison of How Recommended Approach and Current Mechanism Meet General Objectives and Criteria for Small County Funding *(continued)*

Page 3 of 3

Small County Funding		Recommended Approach	Current Mechanism
Funding Allocation Formula	Is transparent	Yes – eligibility criteria and the amount of total available funds are unambiguous, the formula clearly illustrates how funds would be allocated between counties, using mathematical equations and published data	Moderately – small county funds are published, after the fact, on the Disbursements to Counties worksheets. Can only determine eligible counties using the mathematical formula, after the fact
Accountability	Includes performance incentives and accountability	Yes – would incorporate special reporting into a service contract	Yes, but less so – included “trigger” for funding eligibility, but no performance requirements

5. Recommended Funding Approach *(continued)*

Pros and Cons of Recommended Approach

Table 5-5, starting on the next page, provides an overview of the pros and cons of each component of the recommended approach. As with any funding allocation mechanism, there are trade-offs between factors such as simplicity, equity, and transparency. We believe that the recommended approach balances these important characteristics, and provides a logical, rational, equitable, and sustainable mechanism to augment tobacco tax revenues for small counties.

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5. Recommended Funding Approach *(continued)*

Table 5-5
Summary of Pros and Cons of Recommended Approach

Page 1 of 3

Small County Eligibility		
Approach	**Pros**	**Cons**
Percent of State births <= 0.10% = 16 Eligible Counties	■ Provides a clear and stable definition of small county eligibility ■ Focuses resources where they are most needed, a quality that will be increasingly important over time, as total available funds decline	■ Less inclusive than the current mechanism
Small County Total Available Funds		
32% of Unallocated Fund	■ Based on the average percent of unallocated fund revenues actually paid to small counties between FY 2002/03 and FY 2008/09, and projected through FY 2010/11 ■ Represents nine (9) years of historical unallocated fund distributions to small counties ■ Is sustainable over the long-term, as total tobacco tax revenues decline	■ The amount of funding available for small counties will decline over time, although at the same rate as tobacco tax revenues. To maintain effective First 5 programs in the long run, the smallest counties may need additional, outside, funding sources ■ Because the 32 percent is applied with a one fiscal year lag, the actual percentage for the current fiscal year is closer to thirty-three (33) percent

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5. Recommended Funding Approach *(continued)*

Table 5-5
Summary of Pros and Cons of Recommended Approach *(continued)* *Page 2 of 3*

Small County Distribution Formulas		
Approach	**Pros**	**Cons**
Two-Component Variable Formula (normalized inverse birth rate and normalized service population)	■ Takes into account the range of needs, and characteristics, of small counties ■ Provides some smoothing and robustness	■ Has no component to account for "rurality" ■ Is less robust than the three-component formulas
Normalized Inverse Birth Rate Factor, at 60 Percent Weighting	■ Provides the most funding to eligible counties with the lowest number of births ■ Majority of weighting is directly related to the key issue, i.e. that counties with low numbers of births do not receive adequate tobacco tax revenues to operate an effective First 5 program	■ If weighted too heavily, this factor results in "overcompensated outliers" – providing more total funding to counties with the lowest birth numbers, than to other small counties that have significantly more children age zero to five
Normalized Service Population Factor, at 40 Percent Weighting	■ Provides relatively more funding to eligible counties based on the percent of children in the relevant population (age 0 to 5) ■ Helps balance out the normalized inverse birth rate factor by spreading a share of costs to counties with relatively more children to serve	■ Is similar, and perhaps somewhat duplicative, of the birth rate factor that is utilized for allocating tobacco tax revenues

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5. Recommended Funding Approach *(continued)*

Table 5-5

Summary of Pros and Cons of Recommended Approach *(continued)*

Page 3 of 3

Small County Performance Incentives and Accountability		
Local Area Agreement Conditions – as a condition of funding, small counties would be required to provide an accounting of how small county funds were utilized in their annual audits. In addition, there would be some restrictions on how small county funds could be utilized	■ Builds on the existing auditing system to provide additional accountability for small county funds ■ Would provide a basis for First 5 California staff to assist under-performing small counties in developing new approaches to better utilize those funds	■ Determining whether a county's spending activities support an effective program could be subjective ■ May require some additional reporting by small counties, and additional First 5 California staff time to monitor reports

5. Recommended Funding Approach *(continued)*

Conclusion

The recommended approach for small population county funding will provide a sustainable, equitable, and long-term solution to what has been an intractable problem for First 5 California. This approach will provide funding: (1) to small counties with percent of State births less than, or equal to, 0.10 percent; (2) utilizing 32 percent of unallocated fund revenues from each previous fiscal year; (3) utilizing a two-component allocation formula based on normalized inverse birth rates and normalized service population; and (4) incorporating special reporting in the service contract for accountability.

This recommended approach reflects extensive research and analyses, as well as the final input of small and large First 5 county commission members in the Small County Workgroup. This approach replaces a status quo funding mechanism that is requiring a growing percentage of First 5 California unallocated funds, and funding more than one-half of the State's 58 counties, many of which cannot, by any definition, be considered "small". This approach generally meets our guiding principles and assumptions, and specific selection criteria. This recommended approach also generally meets the needs of the sixteen small counties, in terms of exceeding the threshold small county funding most received in FY 2008/09 for the first three years of the new approach.

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Appendix A.
Formal Components

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Appendix A. Formula Components

Starting on the next page, we provide the equations for each of the normalized proportions in the distribution formulas that we considered. The four primary data points required for these calculations, for each of the sixteen small counties, are (1) number of births, (2) population of children age zero to five, (3) square miles of land, and (4) population. All four of these data points are available from published State of California sources. This Appendix also includes a sample calculation for the normalized inverse birth rate proportion for Alpine County, and normalized service population proportion for Alpine County, using projected calendar year 2010 data.[9]

[9] This example utilizes projected data in the mathematical formula for demonstrative purposes, whereas in actuality, the Commission will utilize the most recent actual data.

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Appendix A. Formula Components *(continued)*

Normalized Inverse Birth Rate Proportion $(NIBRP_x)$ $IB_x = 1 \div \frac{B_x}{\sum_{i=1}^{16} B_i}$ $IBR_x = \frac{IB_x}{\sum_{i=1}^{16} IB_i}$ If $IBR_x > 6.25\%, then\ IBR_x = 6.25\%$ $NIBRP_x = \frac{IBR_x}{\sum_{i=1}^{16} IBR_i}$	**Where:** B_x = Number of births in County X B_i = Number of births in County i IB_x = Inverse percent of births for County X IB_i = Inverse percent of births for County i IBR_x = Inverse birth rate percent for County X IBR_i = Inverse birth rate percent for County i 6.25% = $^1/_{\sum_{i=1}^{16}}$ $NIBRP_x$ = Normalized inverse birth rate proportion for County X
Normalized Service Population Proportion $(NSPP_x)$ $SPP_x = \frac{SP_x}{\sum_{i=1}^{16} SP_i}$ If $SPP_x > 6.25\%, then\ SPP_x = 6.25\%$ $NSPP_x = \frac{SPP_x}{\sum_{i=1}^{16} SPP_i}$	**Where:** SP_x = Service population in County X, number of children age 0 to 5 SP_i = Service population in County i, number of children age 0 to 5 SPP_x = Service population in County X as a percent of the sum of service populations in the 16 small counties SPP_i = Service population in County i as a percent of the sum of service populations in the 16 small counties 6.25% = $^1/_{\sum_{i=1}^{16}}$ $NSPP_x$ = Normalized service population proportion in County X

Appendix A. Formula Components *(continued)*

Normalized Inverse Population Density Proportion ($NIPDP_x$)
(not utilized in recommended approach)

$$IPD_x = \frac{1}{PD_x}$$

$$IPDP_x = \frac{IPD_x}{\sum_{i=1}^{16} IPD_i}$$

$$\text{If } IPDP_x > 6.25\%, then\ IPDP_x = 6.25\%$$

$$NIPDP_x = \frac{IPDP_x}{\sum_{i=1}^{16} IPDP_i}$$

Where:

PD_x = Population density (persons per square mile) in County X

IPD_x = Inverse population density for County X

IPD_i = Inverse population density for County i

$IPDP_x$ = Inverse population density for County X as a percent of the sum of inverse population densities for all sixteen small counties

6.25% = $^1/_{\sum_{i=1}^{16}}$

$IPDP_i$ = Inverse population density for County i as a percent of the sum of inverse population densities for all sixteen small counties

$NIPDP_x$ = Normalized inverse population density proportion for County X

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Appendix A. Formula Components *(continued)*

Example Calculation – Normalized Inverse Birth Rate Proportion for Alpine County

$$B_x = 12$$

$$\sum_{i=1}^{16} B_i = 4{,}183$$

$$IB_x = 1 \div \frac{B_x}{\sum_{i=1}^{16} B_i} = 1 \div \frac{12}{4{,}183} = 348.58$$

$$\sum_{i=1}^{16} IB_i = 786.40$$

$$IBR_x = \frac{IB_x}{\sum_{i=1}^{16} IB_i} = \frac{348.58}{786.40} = 44.33\%$$

$$44.33\% > 6.25\%, \text{ so } IBR_x = 6.25\%$$

$$\sum_{i=1}^{16} IBR_i = 45.05\%$$

$$NIBR_x = \frac{IBR_x}{\sum_{i=1}^{16} IBR_i} = \frac{6.25\%}{45.05\%} = 13.87\%$$

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Appendix A. Formula Components *(continued)*

Example Calculation – Normalized Service Population Proportion for Alpine County

$$SP_x = 77$$

$$\sum_{i=1}^{16} SP_i = 26{,}674$$

$$SPP_x = \frac{SP_x}{\sum_{i=1}^{16} SP_i} = \frac{77}{26{,}674} = 0.289\%$$

$$0.289\% < 6.25\%, \text{ so } SPP_x = 0.289\%$$

$$\sum_{i=1}^{16} SPP_i = 73.195\%$$

$$NSPP_x = \frac{SPP_x}{\sum_{i=1}^{16} SPP_i} = \frac{0.289\%}{73.195\%} = 0.394\%$$

Marin
Sacramento
Orange
El Dorado
San Diego
Calaveras
Kings
Santa Barbara
Amador
Trinity
Stanislaus
Sonoma
Mono
Madera
Modoc
Butte
Fresno
Kern
Yolo
Santa Cruz
Monterey
Tuolumne
Santa Clara
Ventura
Merced
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Glenn
San Francisco
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