



AGENDA ITEM: 6

DATE OF MEETING: January 28, 2009

ACTION: _____

INFORMATION: X

**REPORT ON FIRST 5 CALIFORNIA SPENDING PLAN
(Revenue, Obligations and Trends)**

Third Quarter Fiscal Year 2008-09

SUMMARY OF REQUEST

First 5 California staff will provide State Commissioners a fiscal overview highlighting key aspects of the First 5 California Fiscal Year (FY) 2008-09 Spending Plan.

BACKGROUND

The Children and Families Trust Fund (Fund) and its related accounts were created by the California Children and Families Act of 1998 (Act).

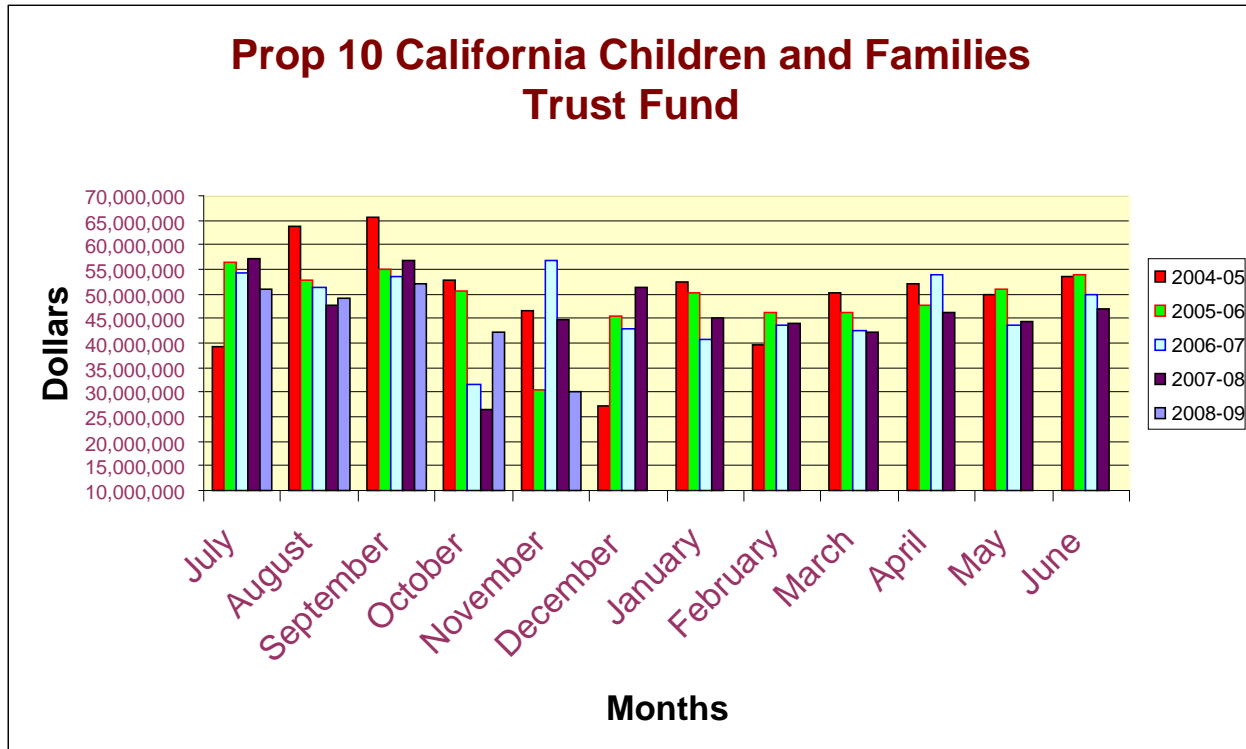
The State Board of Equalization (BOE) collects 87 cents for each cigarette pack distributed, and surtax on other tobacco products. Of the 87 cents collected, 50 cents is allocated and deposited into the Fund. The remainder funds the Proposition 99 and Breast Cancer programs. While First 5 California has full responsibility for the administration and financial statements of the Fund, the BOE receives, accounts for, and deposits the Cigarette Tax revenue into the Fund. The Department of General Services performs accounting services for First 5 California.

The Fund functions primarily as a pass-through account, which transfers funds to the related accounts according to allocation percentages established by the Act. The county commissions receive 80 percent of the funding; First 5 California receives 20 percent, which is allocated to seven separate accounts to implement specific functions of the Act. First 5 California administers all seven accounts. On a monthly basis, First 5 California disburses 80 percent of the revenue in the Fund to the 58 Counties' Children and Families account according to statute. First 5 California has authority to obligate funds and authorize expenditures in six of the seven accounts, including the Mass Media Communications, Education, Child Care, Research and Development, Unallocated, and Administration accounts.

FISCAL HISTORY

First 5 California revenues consists of the cigarette taxes collected, interest income earned on funds deposited in the Surplus Money Investment Fund (SMIF), refunds from reverted appropriations, and unclaimed checks escheated to the issuing fund.

The following chart represents a historical depiction of tax revenues received in the Fund beginning with Fiscal Year 2004-05 through November 2008.



The amount of monthly revenue received varies each month, each year. The first and fourth quarters of each year are when revenues received are consistently higher than during the second and third quarters. The BOE calculated backfill to those programs impacted by the enactment of the Act (i.e., Proposition 99) typically occurs during the second quarter.

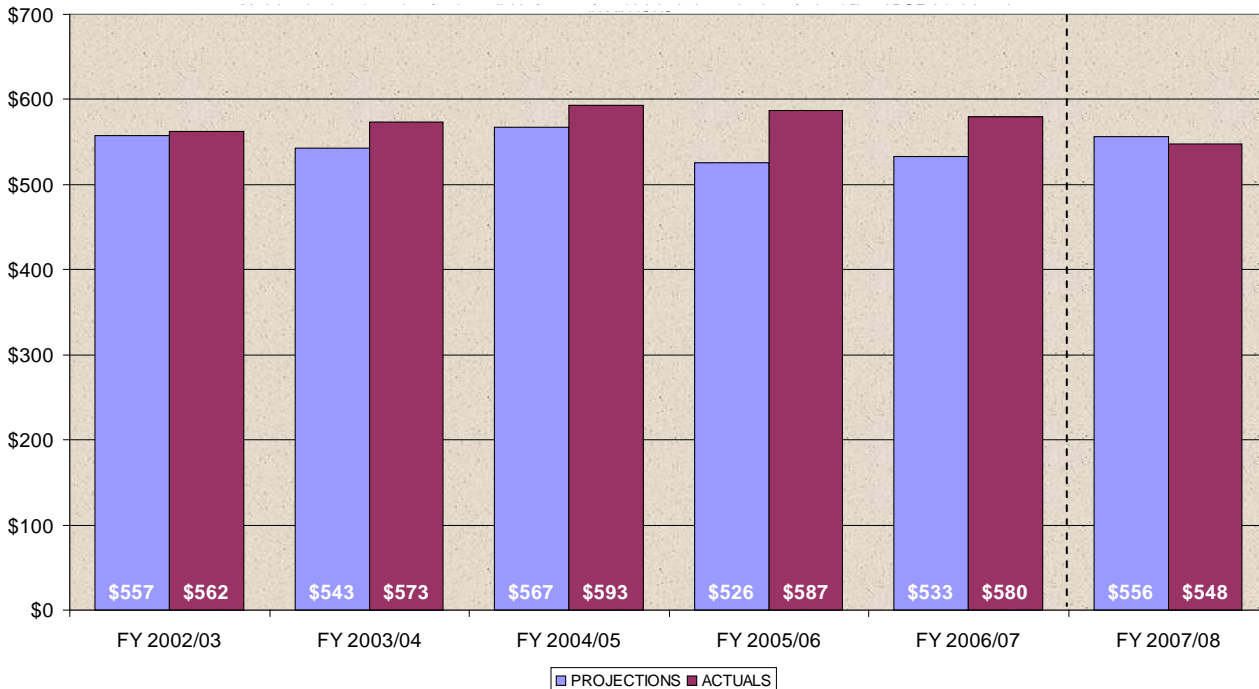
First 5 California revenues are deposited monthly into six accounts according to statute (HSC Section 130105) as referenced on the next page. The Distribution Conversion represents the distribution of actual percent-to-total for First 5 California revenue. The following table represents the statutory distribution of revenue by account type.

Account Type	Statutory Distribution	Distribution Conversion
Mass Media Communications	6%	30%
Education	5%	25%
Child Care	3%	15%
Research and Development	3%	15%
Unallocated	2%	10%
Administration	1%	5%
Total	20%	100%

Funds cannot be transferred between accounts with the exception of the Administration Account. With State Commission approval, funds from the Administration account can be transferred to the Unallocated account.

Beginning with FY 2007-08, First 5 California transitioned from First 5 California's outdated cigarette and tobacco product tax projection model to the Department of Finance's (DOF) cigarette and tobacco product tax projection model. The DOF releases these projections upon the release of the Governor's Budget in January and updates its projections following the May Revise.

The following chart demonstrates that prior to FY 2007-08 the actual revenue received was consistently equal to or greater than the projected revenue. Beginning in FY 2007-08, the gap between the projected and actual revenue received was significantly narrowed, and is the first year that the actual revenue received was less than the projected revenue. Review of the first six months of FY 2008-09 actual revenue compared with FY 2007-08 actual revenue shows a to-date decline in revenue receipts, at the same time the DOF projected an increase in revenue.



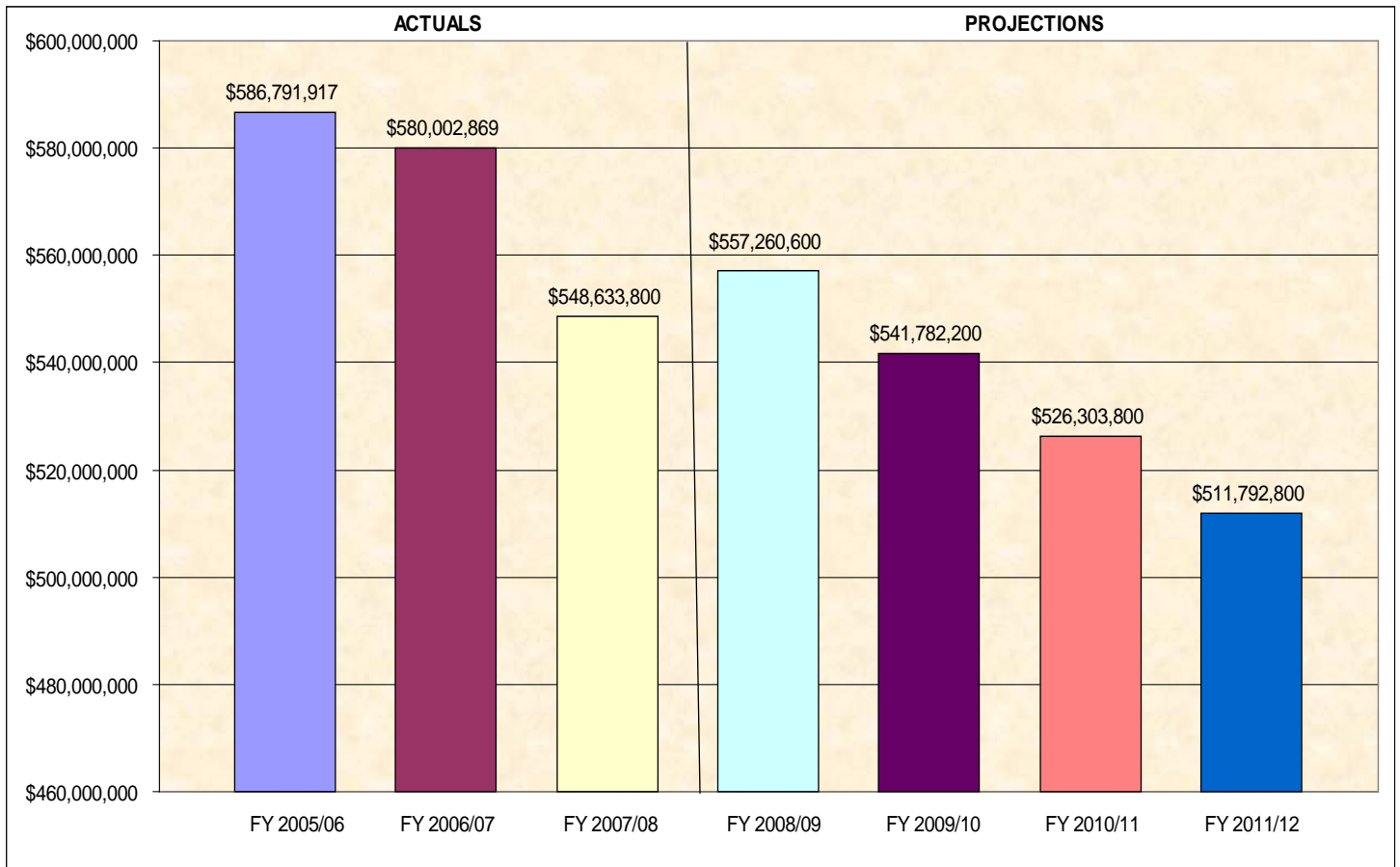
DISCUSSION

Tax Revenue Projections

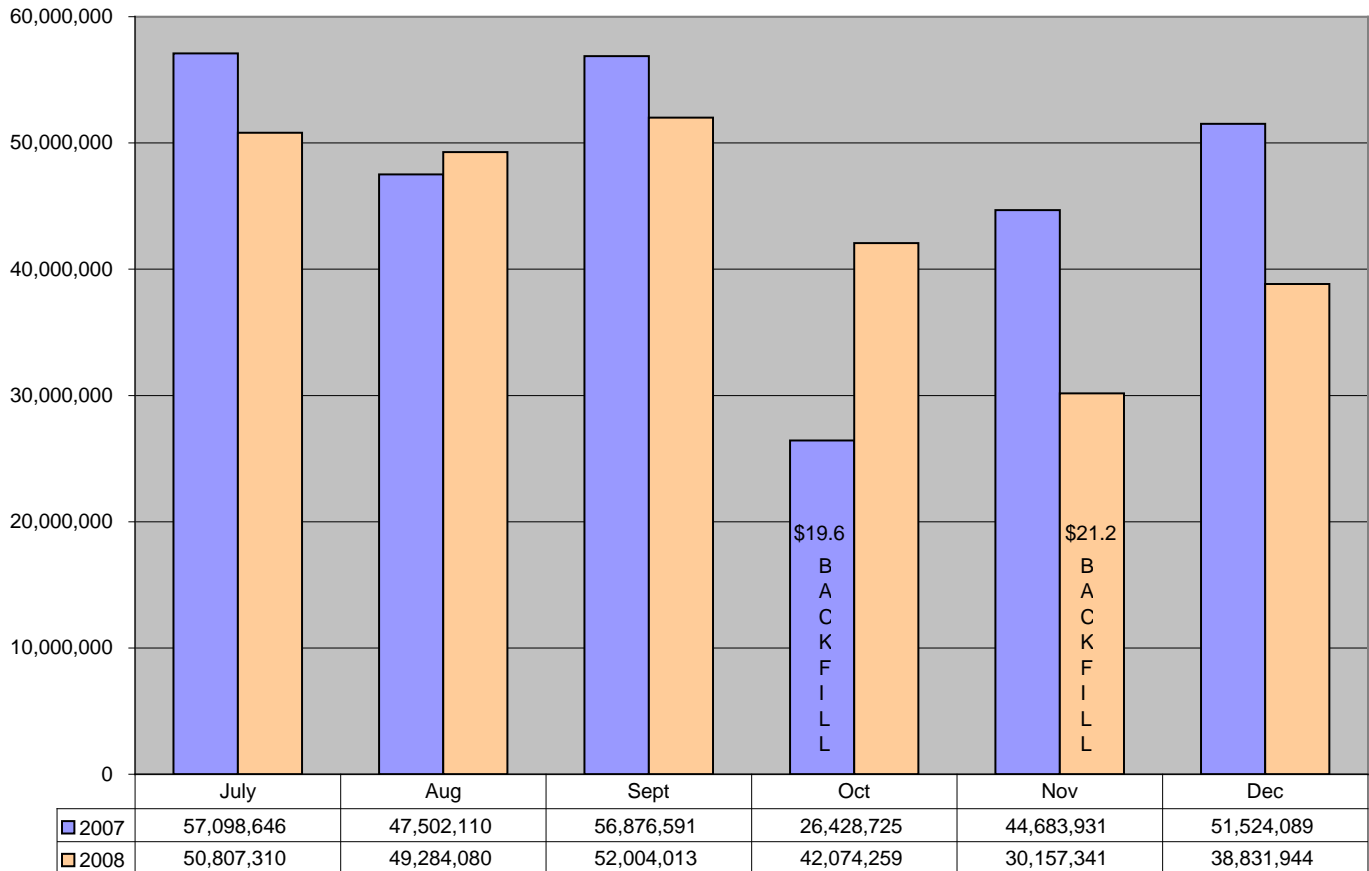
DOF projections confirm the tobacco tax revenue is declining. The rate of decline is caused by both intended and unintended factors, which include First 5 California's effective public outreach efforts and smoking cessation programs to reduce tobacco use, as well as the impact of the state's sluggish economy.

The following table shows actual and projected tax revenues for state and county commissions for FY 2005/06 through FY 2011/12:

STATE AND COUNTY PROP 10 TAX REVENUE



Below is a comparison of FY 2007-08 and FY 2008-09 actual revenue received during the first six months of the current fiscal year, July through December.



The per-month average revenue received during the same six-month period for FY 2007-08 was \$47,352,349 and FY 2008/09 is \$43,859,825, a decline of 7.38 percent from FY 2007-08. DOF will update its tax revenue projections in January 2009, at which time First 5 California will revise the spending plan to reflect the tax revenue projection adjustments.

Surplus Money Investment Fund

First 5 California investments consist of cash in excess of current needs on deposit in the Surplus Money Investment Fund (SMIF). The Fund and related accounts participate in the State of California’s Pooled Money Investment Program, whereby cash on deposit in the State Treasury determined to be in excess of immediate needs are transferred to the SMIF for investment purposes. All earnings derived from investments of the SMIF are apportioned to the contributing fund as provided in the Government Code.

The following chart shows actual SMIF revenue received by account for FY 2005-06 through FY 2007-08.

SMIF Revenue by Account			
Account Name	FY 05/06	FY 06/07	FY 07/08
Mass Media Communications	\$1,685,625	\$2,221,921	\$2,860,932
Education	\$4,363,708	\$6,377,941	\$6,119,513
Child Care	\$2,462,568	\$3,326,269	\$3,001,928
Research and Development	\$2,771,564	\$3,671,389	\$3,518,258
Administration	\$826,683	\$1,200,413	\$1,082,924
Unallocated	\$1,006,937	\$988,163	\$168,851
TOTAL	\$13,117,085	\$17,786,096	\$16,752,407

The rate of interest earned on investment changes regularly and is posted to First 5 California's accounts quarterly. The following chart shows the decline in interest rates by quarter for the past three fiscal years.

SMIF Apportionment Yield Rates			
Fiscal Year	Period Ending	Interest Rate	Percent Change
06/07	9/30/2006	4.926	
	12/31/2006	5.106	+3.65
	3/31/2007	5.172	+1.29
	6/30/2007	5.235	+1.22
07/08	9/30/2007	5.236	+0.01
	12/31/2007	4.955	-5.27
	3/31/2008	4.174	-15.76
	6/30/2008	3.108	-25.54
08/09	9/30/2008	2.769	-10.91

Because of the varying nature of interest earnings, First 5 California's spending plan projects SMIF at 1.7 percent annually. Additionally, large disbursements of funds from any particular account will impact the SMIF revenue projections. First 5 California reconciles SMIF revenue annually in the spending plan.

Fund Condition

The Fund and related accounts are classified as Other Governmental Cost Funds for State of California financial reporting purposes. Other Governmental Cost Funds are special revenue funds used to account for revenues restricted by law for specified purposes. The chart below represents First 5 California’s Fund Condition as of June 30, 2008, and the projected fund condition for FY 2008-09, which is also contained and reported in the Governor’s annual budget.

**2008-09 Spending Plan
Fund Condition**

(Dollars in Millions)

	Actual 2007-08	Projected 2008-09
Prior-year fund balance	\$335	\$374
Revenues and transfers	\$127	\$118
Total resources available	\$462	\$492
Expenditures*	\$88	\$178
Ending fund balance**	\$374	\$314

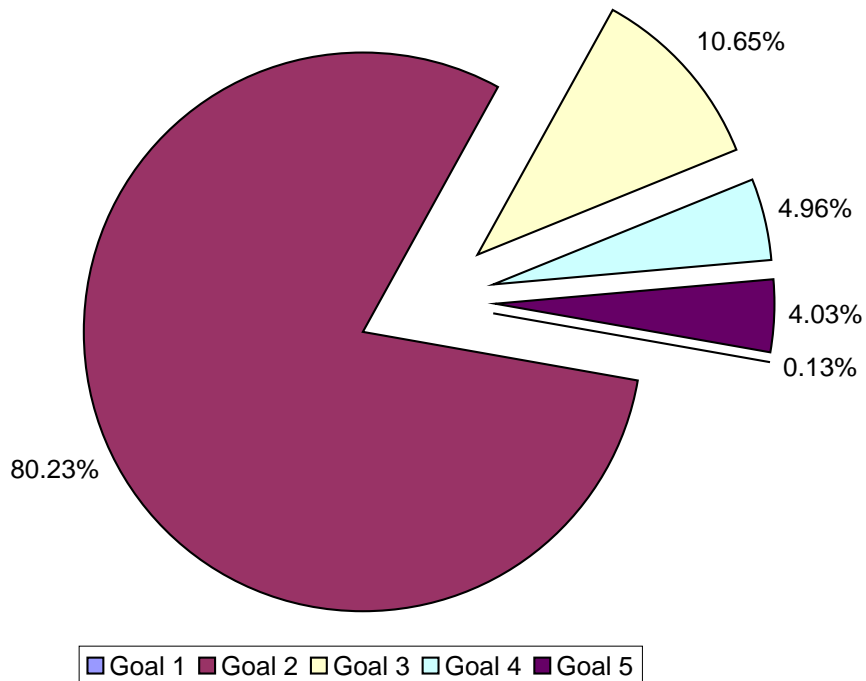
* Does not include 15 percent operational reserve
** Includes encumbrances

First 5 California’s Fund Condition shows a projected 16 percent decrease in ending fund balance from FY 2007-08 to FY 2008-09.

FY 2008-09 Spending Plan

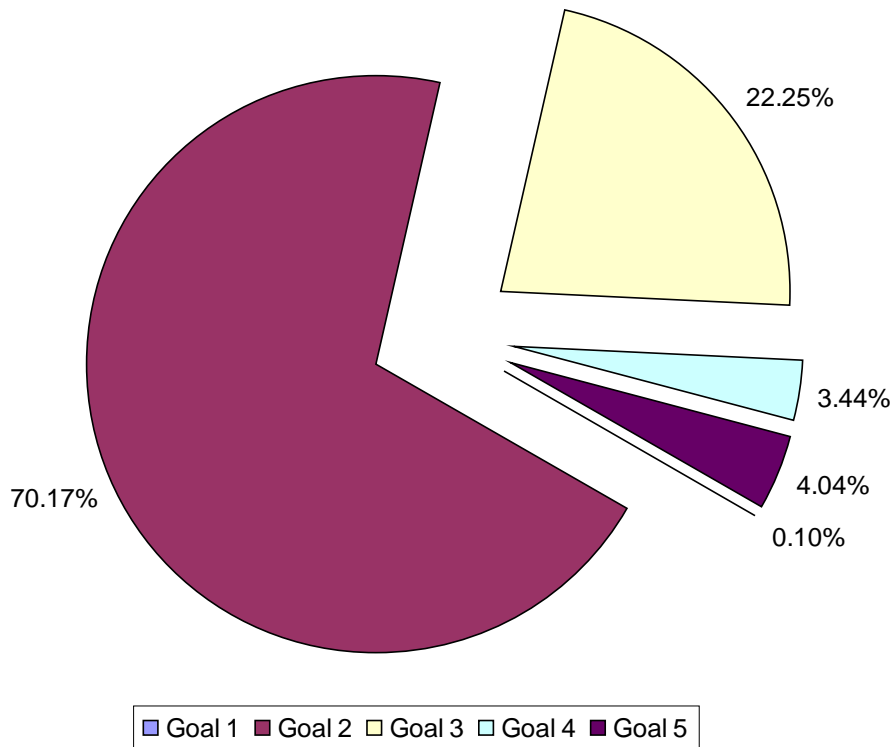
The FY 2008-09 Spending Plan assumes approximately \$492 million in cigarette and other tobacco tax revenue, SMIF, and carryover from prior years. The charts below show the FY 2008-09 Spending Plan by Strategic Goal.

Fiscal Year 2008-09 Spending Plan by Strategic Goal		
Goal Description	Amount Obligated	% of Total Obligations
Goal 1: Focus on Policy Development	\$223,875	0.13%
Goal 2: Invest in Program Development	\$142,925,085	80.23%
Goal 3: Broaden Public Awareness	\$18,963,381	10.65%
Goal 4: Enhance Research and Evaluation	\$8,842,694	4.96%
Goal 5: Strengthen Organizational Operations and Systems	\$7,182,323	4.03%
Total	\$178,137,358	100.00%



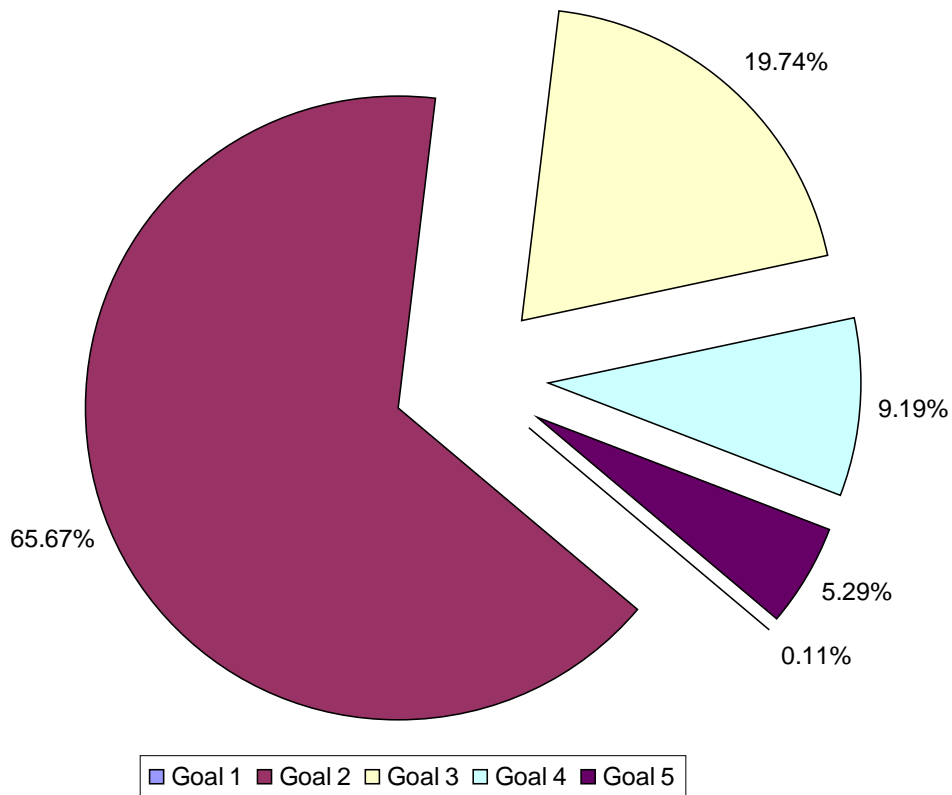
Fiscal Year 2009-10 Spending Plan by Strategic Goal

<u>Goal Description</u>	Amount Obligated	% of Total Obligations
Goal 1: Focus on Policy Development	\$175,000	0.10%
Goal 2: Invest in Program Development	\$118,731,122	70.17%
Goal 3: Broaden Public Awareness	\$37,658,079	22.25%
Goal 4: Enhance Research and Evaluation	\$5,815,879	3.44%
Goal 5: Strengthen Organizational Operations and Systems	\$6,835,010	4.04%
Total	\$169,215,090	100.00%



Fiscal Year 2010-11 Spending Plan by Strategic Goal

<u>Goal Description</u>	Amount Obligated	% of Total Obligations
Goal 1: Focus on Policy Development	\$150,000	0.11%
Goal 2: Invest in Program Development	\$86,747,437	65.67%
Goal 3: Broaden Public Awareness	\$26,075,882	19.74%
Goal 4: Enhance Research and Evaluation	\$12,138,665	9.19%
Goal 5: Strengthen Organizational Operations and Systems	\$6,982,954	5.29%
Total	\$132,094,938	100.00%



The Spending Plans for FYs 2008-09 through 2010-11 include all approved State Commission Funding obligations.

First 5 California's Spending Plan is a living document. During each year, a number of changes occur to the plan. These changes are generated by:

- New funding obligations by the State Commission
- Changes in DOF tax revenue projections
- Changes in state operations costs such as staffing, Pro rata, State Controller's Office fees, and BOE's cost for administering the Fund
- Changes in contractors and county commission use of authorized funding
- New costs associated with statewide initiatives

Beginning in December 2009 and continuing through FY 2011-12, First 5 California's state match program commitments will be ending. First 5 California's Project Legacy effort approved by the State Commission in September 2008 will evaluate and make recommendations for future programs looking ahead to create our "Roadmap to the Future." There will be a transition period between programs ending and new program development. During this period, First 5 California will likely experience increased fund balances. Once the new programs have been developed and implemented, First 5 California will experience a significant decline in the fund balances. During this interim period and time of economic uncertainty for California families, First 5 California will seek out opportunities to meet the needs of children 0 to 5 and their families.