



May 31, 2012

The Honorable Members of the Senate
State Capitol
Sacramento, CA 95814

RE: \$80 MILLION REDIRECTION FROM PROPOSITION 10 PROGRAMS

Dear Senator:

The staff and Commissioners of the First 5 California Children and Families Commission (Commission) are stewards of revenues raised by the voters and dedicated to the specific early childhood education and development programs and outcomes described in Proposition 10, the voter-approved initiative. We recognize that during a time of such dire State budget constraints it is especially important to strategically partner with sister agencies as long as we can do so within our statutory mandate. As outlined below, the Commission has not been hesitant to agree to these partnerships, especially where it does not damage the Commission's primary duties nor run afoul of specific prohibitions on the use of the money. We invite you and your staff to work with us to identify future opportunities for collaboration consistent with Proposition 10. In this context, I urge your reconsideration and further discussion of two line items in the May Revise Budget Proposal which will present significant programmatic, legal and policy decisions for First 5 California.

The work of the First 5 California and County Commissions was established in a voter-approved initiative.

The Commission's funding for First 5 California was established in 1998 by Proposition 10, an initiative which directs the 7-member Commission to create and implement integrated and comprehensive services to enhance early childhood development to ensure that California's children are ready to enter school. As recently as November 2009, the voters reconfirmed at the ballot box their support of First 5 California and rejected Proposition 1D which would have redirected over sixty percent of the Proposition 10 revenues over the next five years to offset General Fund expenditures. The only process by which the initiative may be amended is either by the voters themselves, or by two-thirds of the membership of both houses of the Legislature as long as such amendment is consistent with the purposes of Proposition 10.

The May Revise proposes an \$80 million transfer from Proposition 10 commissions.

The Governor's revised budget for State FY2012-13 proposes that **\$80 million** be redirected from the California Children and Families Trust Fund—administered by the Commission—to cover General Fund reductions in early childhood programs under Medi-Cal and Developmental Services. The language from the May Revise Summary is:

- Proposition 10 Funding – This proposal reflects \$40 million to be provided by the First 5 California Children and Families Commission for programs serving children ages birth through five. This would decrease Medi-Cal General Fund by \$40 million.
- Proposition 10 Funding – This proposal reflects \$40 million to be provided by the First 5 California Children and Families Commission for programs serving children ages birth through five. This funding would support the [Department of Developmental Services] Early Start Program, decreasing General Fund costs by \$40 million.

The May Revise rests on the assumption that the Commission will agree to transfer the funds. As of this writing, the Commission's staff has not been contacted by the Department of Finance or any representative of the Administration.

The Commission has a strong track record of participating in joint budget solutions. Over the past four years, the Commission has cooperated by contributing **over \$329 million** to the Early Start Program, and the Healthy Families Program administered by the Managed Risk Medical Insurance Board. The Commission drew these contributions from its unallocated funding, relying instead on the annual cigarette and tobacco tax revenue to support First 5 California's statewide signature programs for children, parents and teachers. Additionally, these voluntary contributions were made to our sister agencies upon assurance that there would be no conflicts with the language in Proposition 10 which provides: "No moneys in the California Children and Families Trust Fund shall be used to supplant state or local General Fund money for any purpose."

The most recent budget proposal, however, presents a distinctly different context—and one with a potentially serious program, legal and policy ramifications.

The transfer will cause major rollbacks to First 5 state and county direct service programs.

The past four years of contributions to other State health programs have substantially reduced the Commission's statewide reserve. While our projected expenditures in FY2012-2013 are within the projected annual revenue of \$86 million; the reserve no longer covers those projected expenditures. Thus, an \$80 million transfer in FY2012-2013 will require the Commission to revisit its previous approvals to fund multi-year programs and grants supporting our signature programs for children, parents and teachers in furtherance of the First 5 California strategic plan.

The transfer will eliminate up to \$80 million in matching grant funds for First 5 county programs.

Adjustments to the financial commitments made by First 5 California could result in work stoppage of the Commission's critical programs and services. Additionally, the County First 5 Commissions depend on and leverage state dollars in support of local early childhood development programs including teacher salaries and daily education services to vulnerable children. Small population counties may also lose funds.

The transfer may run afoul of Proposition 10's prohibition on supplantation.

Unlike the Commission's previous contributions to joint budget solutions, this transfer will not supplement or add to existing programs; rather it is facially proposed to decrease the General Fund contributions to the Early Start Program and Medi-Cal. To the extent that Medi-Cal and Early Start are entitlement programs, the State would be required to pay for those services even if First 5 California did not fund them. As the Fresno Superior Court noted in *Children and Families Commission of Fresno County v. Brown*, its ruling striking down last year's proposed redirection of \$1 billion from the First 5 California and County Commissions, the State Commission's discretion on the use of its funds is limited, and is not immune from the anti-supplantation provision in Proposition 10. It appears that if this provision has any meaning at all, the prohibition on the use of revenue to supplant General Fund expenditures would block the proposal to shift funds from the Proposition 10 trust fund to offset expected General Fund program expenditures for existing programs or entitlements under Early Start and Medi-Cal.

The transfer would harm Proposition 10's specific purposes.

At a policy level, the proposed transfer of \$80 million would contradict several policy mandates included in Proposition 10 as approved by the voters. By shifting virtually an entire year's revenue to these two health programs, the Commission would not be able to fulfill its statutory responsibility to promote, support and improve early childhood development through "integrated and comprehensive programs emphasizing community awareness, education, nurturing, child care, social services health care and research." (Health & Safety Code, section 130100.) The initiative dictates the formula for the allocation of First 5 California's annual revenues into specific accounts supporting the statutory purposes, and only permits transfer from those accounts if those funds are "not needed." Reductions to those First 5 accounts this year would impact its three signature programs:

- **Teacher** – CARES Plus program supporting the professional development of more than 5,000 participants in the early learning workforce in 34 counties,
- **Child** Signature Program providing quality pre-school education and early learning programs for 25,000 children in over 500 county facilities especially in at-risk communities, and
- **Parent** – reaching 1.5 million parents with children ages 0-5 through targeted online and other messaging, including the *Kit for New Parents*.

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The Commission has previously approved multi-year contracts and grants to implement these programs to meet the statutory goals of Proposition 10. Any call for the Commission to revisit those commitments, and to fund two existing health programs to the exclusion of the array of child, parent and teacher education initiatives contemplated by Proposition 10, could place the Commissioners in a position to act contrary to the will of the voters.

Please feel free to contact me at (916) 263-1050 if you have any questions or would like to discuss this further.

Sincerely,

A handwritten signature in blue ink that reads "Kris Perry". The signature is written in a cursive style and is contained within a thin black rectangular border.

Kris Perry
Executive Director

cc: The Honorable Members of the Assembly
Analysts at Department of Finance and the Legislative Analyst's Office
Commissioners, First 5 California
First 5 County Commissions

First 5 California
Expenditure Summary Based on State Budget Projection of
\$80 million in Proposition 10 Funds For
FY 2012-13

Account/Project	FY 11-12	FY 12-13	FY 13-14	FY 14-15
	\$50M	\$80M		
Mass Media Communications (0631)				
Projected Carryover	\$31,407,195	\$12,390,848	(\$2,689,889)	(\$2,153,558)
Beginning Balance	\$31,407,195	\$12,390,848	(\$2,689,889)	(\$2,153,558)
School Readiness, Cycle 2	1,034,402			
State Budget Solution	\$25,000,000	\$16,000,000		
Public Education and Outreach	\$74,999			
Parent Signature Program - Education and Outreach	\$14,557,756	\$9,680,239	\$9,680,239	\$6,000,000
Parent Signature Program - 1-800 Number	\$150,000	\$150,000	\$150,000	\$150,000
Kit Federal Matching Funds				
Parent Signature Program - <i>Kit for New Parents</i>	\$5,574,310	\$5,574,310	\$5,000,000	\$5,000,000
Child Signature Program - Power of Preschool		\$10,000,000	\$10,000,000	\$10,000,000
SCO/PRORATA/ADJUSTMENTS	\$8,000	\$8,000	\$8,000	\$8,000
Total Budgeted Expenditures	\$46,399,468	\$41,412,549	\$24,838,239	\$21,158,000
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	\$46,399,468	\$41,412,549	\$24,838,239	\$21,158,000
Subtotal	(\$14,992,274)	(\$29,021,702)	(\$27,528,128)	(\$23,311,558)
Projected Revenue	\$27,288,900	\$26,294,640	\$25,334,640	\$24,434,640
Adjustment to Balance				
Projected Interest	\$94,222	\$37,173	\$39,930	\$41,539
Other Revenue				
Year End Balance	\$12,390,848	(\$2,689,889)	(\$2,153,558)	\$1,164,622
Education (0634)				
Projected Carryover	\$25,052,048	\$20,122,847	(\$2,162,584)	(\$9,251,872)
Beginning Balance	\$25,052,048	\$20,122,847	(\$2,162,584)	(\$9,251,872)
School Readiness, Cycle 2	\$2,298,672			
State Budget Solution	\$7,000,000	\$21,000,000		
Statewide Conference	\$150,000	\$150,000	\$150,000	\$150,000
Co-Sponsorship Funding	\$150,000	\$150,000	\$150,000	\$150,000
Regional Technical Assistance	\$135,734			
Child Signature Program - Educare	\$100,000	\$2,950,000	\$2,950,000	
Educare Advisors	\$4,000			
Child Signature Program-PoP Bridge	\$17,898,700			
Child Signature Program - Power of Preschool		\$20,000,000	\$25,000,000	\$25,000,000
SCO/PRORATA/ADJUSTMENTS	\$8,000	\$8,000	\$8,000	\$8,000
Total Budgeted Expenditures	\$27,745,106	\$44,258,000	\$28,258,000	\$25,308,000
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	\$27,745,106	\$44,258,000	\$28,258,000	\$25,308,000
Subtotal	(\$2,693,059)	(\$24,135,153)	(\$30,420,584)	(\$34,559,872)
Projected Revenue	\$22,740,750	\$21,912,200	\$21,112,200	\$20,362,200
Adjustment to Balance				
Projected Interest	\$75,156	\$60,369	\$56,512	\$35,244
Other Revenue				
Year End Balance	\$20,122,847	(\$2,162,584)	(\$9,251,872)	(\$14,162,428)
Orange: Account contribution for proposed Budget Solution				
Purple: Amount pending Commission approval				
Royal Blue: Amount projected for ongoing expenditures				
Green: Subtotal amounts				

First 5 California
Expenditure Summary Based on State Budget Projection of
\$80 million in Proposition 10 Funds For
FY 2012-13

Account/Project	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Child Care (0636)				
Projected Carryover	\$23,130,745	\$15,394,637	(\$2,884,866)	(\$186,200)
Beginning Balance	\$23,130,745	\$15,394,637	(\$2,884,866)	(\$186,200)
School Readiness, Cycle 2	\$976,936			
State Budget Solution	\$4,000,000	\$16,000,000		
Child Signature Program - Power of Preschool		\$0	\$0	\$0
Teacher Signature Program - CARES Plus	\$16,465,015	\$15,465,006	\$10,000,000	\$10,000,000
SCO/PRORATA/ADJUSTMENTS	\$8,000	\$8,000	\$8,000	\$8,000
Total Budgeted Expenditures	\$21,449,950	\$31,473,006	\$10,008,000	\$10,008,000
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	\$21,449,950	\$31,473,006	\$10,008,000	\$10,008,000
Subtotal	\$1,680,795	(\$16,078,369)	(\$12,892,866)	(\$10,194,200)
Projected Revenue	\$13,644,450	\$13,147,320	\$12,667,320	\$12,217,320
Adjustment to Balance				
Projected Interest	\$69,392	\$46,184	\$39,345	\$47,441
Other Revenue				
Year End Balance	\$15,394,637	(\$2,884,866)	(\$186,200)	\$2,070,561
Research and Development (0637)				
Projected Carryover	\$17,832,745	\$10,365,831	(\$2,312,885)	\$3,892,163
Beginning Balance	\$17,832,745	\$10,365,831	(\$2,312,885)	\$3,892,163
School Readiness, Cycle 2	\$1,436,670			
State Budget Solution	\$14,000,000	\$18,000,000		
Annual Report	\$149,004	\$149,000	\$149,000	\$149,000
PEDS Maintenance	\$100,000			
Project Training	\$3,070			
Data Collection and Storage	\$4,248,118			
Signature Program Data Collection and Storage	\$230,000	\$845,133	\$497,333	\$299,333
Signature Program Evaluation	\$0	\$1,000,000		
California Health Interview Survey 2011	\$750,000	\$750,000	\$750,000	\$750,000
IT Development	\$90,000	\$105,000	\$105,000	
Child Signature Program - RFA Development	\$150,000			
Child Signature Program - Power of Preschool		\$5,000,000	\$5,000,000	\$5,000,000
SCO/PRORATA/ADJUSTMENTS	\$8,000	\$8,000	\$8,000	\$8,000
Total Budgeted Expenditures	\$21,164,862	\$25,857,133	\$6,509,333	\$6,206,333
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	\$21,164,862	\$25,857,133	\$6,509,333	\$6,206,333
Subtotal	(\$3,332,117)	(\$15,491,302)	(\$8,822,218)	(\$2,314,170)
Projected Revenue	\$13,644,450	\$13,147,320	\$12,667,320	\$12,217,320
Adjustment to Balance				
Projected Interest	\$53,498	\$31,097	\$47,061	\$65,676
Other Revenue				
Year End Balance	\$10,365,831	(\$2,312,885)	\$3,892,163	\$9,968,827

First 5 California
Expenditure Summary Based on State Budget Projection of
\$80 million in Proposition 10 Funds For
FY 2012-13

Account/Project	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Unallocated (0639)				
Projected Carryover	\$5,426,453	\$10,431,443	(\$3,780,382)	(\$4,327,844)
Beginning Balance	\$5,426,453	\$10,431,443	(\$3,780,382)	(\$4,327,844)
State Budget Solution	\$0	\$9,000,000		
Small County Augmentations	\$3,057,407	\$3,000,000	\$3,000,000	\$3,000,000
California Smoker's Helpline	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Child Signature Program - ELAC	\$42,182	\$0		
Child Signature Program - Power of Preschool		\$10,000,000	\$5,000,000	\$5,000,000
SCO/PRORATA/ADJUSTMENTS	\$8,000	\$8,000	\$8,000	\$8,000
Total Budgeted Expenditures	\$4,107,589	\$23,008,000	\$9,008,000	\$9,008,000
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	\$4,107,589	\$23,008,000	\$9,008,000	\$9,008,000
Subtotal	\$1,318,864	(\$12,576,557)	(\$12,788,382)	(\$13,335,844)
Projected Revenue	\$9,096,300	\$8,764,880	\$8,444,880	\$8,144,880
Adjustment to Balance				
Projected Interest	\$16,279	\$31,294	\$15,659	\$14,016
Transfer				
Other Revenue				
Year End Balance	\$10,431,443	(\$3,780,382)	(\$4,327,844)	(\$5,176,947)
0631, 0634, 0636, 0637, 0639 Totals:				
Total cigarette and tobacco tax revenue	\$86,414,850	\$83,266,360	\$80,226,360	\$77,376,360
Total resources per year	\$189,572,583	\$152,178,083	\$66,594,262	\$65,552,968
Total expenditures per year	\$120,866,976	\$166,008,689	\$78,621,572	\$71,688,333
Total Over/Under:	\$68,705,606	(\$13,830,606)	(\$12,027,310)	(\$6,135,365)
Total 15% Reserve	\$12,962,228	\$12,489,954	\$12,033,954	\$11,606,454
	\$55,743,379	(\$26,320,560)	(\$24,061,264)	(\$17,741,819)
Administration (0638)				
Projected Carryover	\$24,360,806	\$21,587,621	\$19,337,877	\$16,557,414
Beginning Balance	\$24,360,806	\$21,587,621	\$19,337,877	\$16,557,414
Administrative Expense	\$6,276,220	\$6,350,488	\$6,676,916	\$6,765,042
Furlough Buyback	\$734,375			
SCO/PRORATA/ADJUSTMENTS	\$383,822	\$346,459	\$384,000	\$384,000
Total Budgeted Expenditures	\$7,394,417	\$6,696,947	\$7,060,916	\$7,149,042
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	\$7,394,417	\$6,696,947	\$7,060,916	\$7,149,042
Subtotal	\$16,966,389	\$14,890,674	\$12,276,961	\$9,408,372
Projected Revenue	\$4,548,150	\$4,382,440	\$4,222,440	\$4,072,440
Projected Interest	\$73,082	\$64,763	\$58,014	\$49,672
Transfer				
Other Revenue				
Year End Balance	\$21,587,621	\$19,337,877	\$16,557,414	\$13,530,484
NOTE: Revenue Projections based on 2012 DOF May Revise.				