



2016
Long Term
Financial Plan Update

Approved December 1, 2015

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I. Introduction and Background

The 2016 First 5 Solano Long Term Financial Plan (LTFP) is designed to directly support the Commission's Strategic Plan. It provides a framework that helps the Commission better understand the long term financial impact of First 5 Solano's program and system change investments that support activities and services for children and families.

In 2004, First 5 Solano was one of the first commissions in California to establish a LTFP with the previous update taking place in 2013. The 2016 LTFP Update incorporates adjustments to the rate of decline in tobacco tax revenues, interest income projections, and previous years' actual expenditure.

The overarching goal of the LTFP is to provide a guiding framework for funding decisions made by the First 5 Solano Children and Families Commission in support of the Commission's Strategic Plan. More specific goals include:

- Clarify and make explicit the sources and uses of funding.
- Develop future-year projections for expectation and the use of Commission resources that can be updated annually based on actual financial data.
- Establish a strategic and predictable rate of annual grant spending.
- Provide a systematic approach to funding decisions that incorporates an understanding of both short- and long-term implications for each decision, and is informed by program evaluation.
- Support sustainability planning with strategic investments to soften the landing from the fiscal cliff¹ and live within the Commission's available resources.

The LTFP is one of several tools (see Appendix A, "Interrelationship of Planning Tools") that provide the Commission with the financial framework it needs to make difficult choices among many worthy potential funding priorities. The LTFP also provides a foundation for sustainability planning to address the Commission's declining resources.

While it is important to know what the Long Term Financial Plan *is*, it is equally important to know what it *is not*. The LTFP does not name specific programs that will receive funding and does not dictate First 5 Solano's future financial obligations, appropriations, or funding commitments; rather, it describes First 5 Solano's fiscal landscape now and in the future.

The First 5 Solano Long Term Financial Plan model is updated annually with actual revenues and expenditures. The Commission periodically reviews the assumptions that support the underlying financial model and determine any changes that are warranted.

¹ The term "Fiscal cliff" when used by many First 5 agencies refers to the abrupt drop in annual expenditure when reserves are depleted.

The LTFP is also used to support ongoing Program Investment Plans and the annual budget process.

Long Term Financial Plan Principles

This Financial Plan's principles provide guidance and procedures for the use of and revisions to the LTFP.

1. The LTFP is designed to communicate the Commission's long-term approach to funding; therefore, revenues and expenses are estimated over a multi-year horizon.
2. The Commission uses the LTFP as the framework for development and/or updating of its Multi-Year Program Investment Plan and annual Budget.
3. The LTFP addresses funding appropriations by category; it does *not* obligate the Commission to actual contracts or awards of funding.
4. The financial model is updated annually based on actual data and to validate that the assumptions. Updates are brought to the Commission, as appropriate.
5. Changes to the LTFP are approved by the Commission.

First 5 Solano's Financial Status

First 5 Solano's financial status entering into FY2016/17 is as follows:

- Commission's reserves are at approximately \$7.1 million.
- Proposition 10 revenues are \$3.2 million with a 3.25% annual rate of decline.
- The FY2016/17 budget is \$4.7 million in program and administrative expenses, offset by \$4.2 million in overall revenues, utilizing nearly \$450,000 from reserves.

Framework for Program Investment

First 5 Solano deploys its program investment funding among programs and initiatives as follows:

- The Commission uses current year Proposition 10 allocation funds, other current revenue, and reserves to support a strategic and predictable level of program investment.
- Program investment level is funded with a combination of current revenues and reserves.
- After reserves are depleted, the Commission's resources for program investment, program support and other operating costs will be limited to its annual Proposition 10 allocation, interest earned, and any other revenue from other sources that the Commission secures/leverages.

II. Fiscal Assumptions

The 2016 LTFP Update is grounded in assumptions that have evolved over time. The most impactful of these include the decline of tobacco tax funds and reserves, the rate of leveraging of First 5 funding, the amount/rate of interest earnings, and the rate of annual grant spending.

As in previous LTFPs, the 2016 LTFP utilizes an Excel model that estimates future years' revenues and expenses (see Appendix C: Financial Model). The calculations are based on the following assumptions:

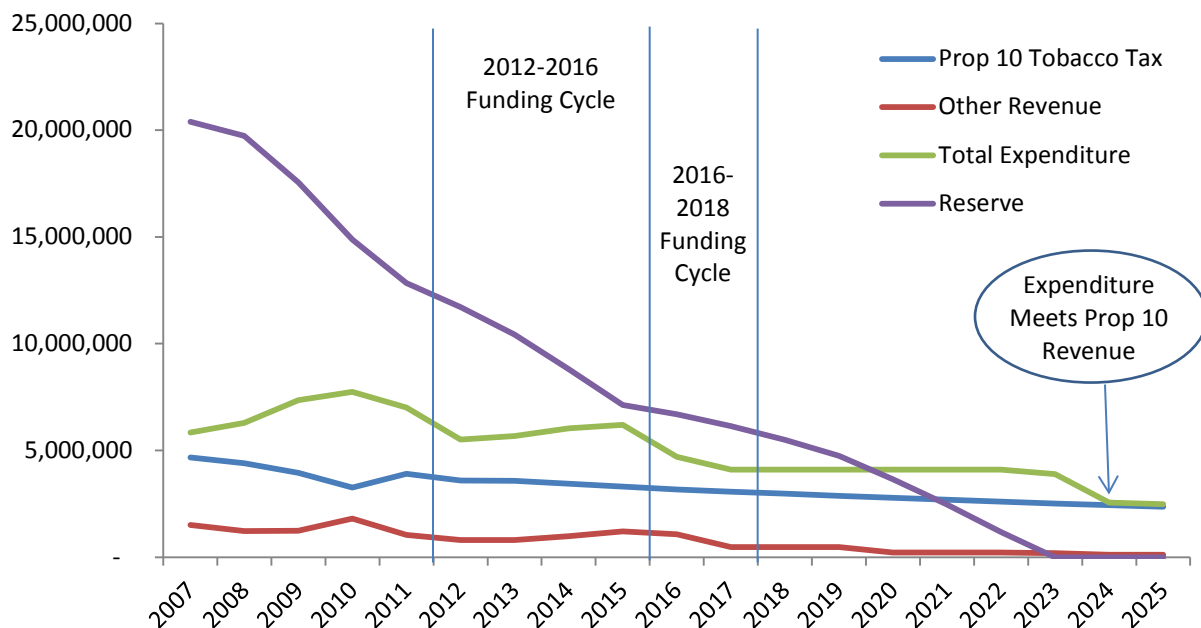
1. **Proposition 10 revenues** – The financial planning model uses county-level projections provided by the Board of Equalization for Proposition 10 revenues through FY2018/19. Beyond that, revenues are estimated based on a 3.25% annual rate of decline (an increase from 3% annual rate of decline in the previous LTFP).
2. **Rate of interest earnings** – The Commission's funds are managed by the Solano County Treasurer's Office and invested in the County Investment Pool. At this time, interest rates are estimated at 0.4%, an increase from 0.25% in the previous LTFP. (Note: First 5 Solano follows the County Investment Policy.)
3. **Matching fund programs** – Revenues from sources other than the Proposition 10 allocation are likely to span a limited number of years and are difficult to project into the future. These revenues may result in significant resources, which may or may not flow through the Commission's budget. Only secured revenues that flow through the Commission's budget are included in the LTFP. The model includes what is known and anticipated based on First 5 California commitments and other match programs, specifically the First 5 California IMPACT Program and Health & Social Services Mental Health Services Act program.
4. **Unexpended program investment** – The Commission has historically underspent its budget due to vacancies in staffing, under-spending in services and supplies, and under-spending in grant and program areas. The model includes 5% in unexpended program investment (unchanged from the previous LTFP), due to under-spending in the annual budget.
5. **Level of other revenues** – The Commission will continue to look to extend its resources and increase its impact by exploring opportunities for local public and/or private sector partnerships. However, the model only reflects other revenues where a commitment is established and the expenditure will be included in the Commission's budget.
6. **Operating expenses** – The financial planning model contains FY2016/17 levels as a baseline, and presents a consistent level of spending through FY2022/23 at which time reserve funds would be exhausted and spending would need to decrease to actual revenue received during that Fiscal Year. To date, the First 5

Commission has allocated funding in its Program Investment Plan through FY2017/18. Operating expenses include:

- a. **Administration:** Salary, benefits, services, and supplies associated with supporting the Commission and general operations.
 - b. **Program:** Contracted/professional services expenses by priority area as allocated in the Program Investment Plan. In addition, program expenses include salary, benefits, services, and supplies associated with implementing and monitoring the Commission’s investments and operating internal programs, such as: Community Engagement, Co-Sponsorship of Conferences and Training, and Systems Change.
 - c. **Evaluation/Data Collection:** Expenses related to data collection and evaluation of the Commission’s investments.
7. **Level of reserves** – Level of reserve is determined by the gap in annual expenditure from the annual revenue subtracted from the fund balance. The Commission has not set an amount to be held in reserve. Setting a minimum reserve amount would impact how much funding is available for future years’ expenditure. (Note: First 5 Solano’s reserve funds, as part of the overall County reserve, cannot be accessed during the budget year. First 5 Solano contingency funds can be accessed by 4/5 vote of the Board of Supervisors.)

These assumptions contribute to the financial picture detailed in this LTFP. In the absence of any other action, First 5 Solano can continue funding at the current level through FY2022/23 at which time the reserves will be exhausted and the Commission’s investments cannot exceed annual revenue.

First 5 Solano Revenue and Expenditure 2007-2025



III. Financial Results

In the last LTFP, expenditure outpaced revenue at a rate whereby the Commission would intentionally expend its reserves by FY2017/18. In June 2014 the Commission chose to extend its 2012-2015 funding cycle for one year (through FY2015/16) to complete a new round of Strategic Planning in preparation for its new fiscal reality. In March 2015, during the approval of the FY2015/16 Annual Budget, the Commission became concerned with the approach of the fiscal cliff and directed staff to work with grantees to identify potential savings during FY2015/16 and ongoing. Staff negotiated a total savings of \$561,444 for FY2015/16 with additional savings in future years.

As the Commission’s Proposition 10 revenue and reserves continue to decline, the Commission directed staff to create a softer landing for the fiscal cliff. To that end, the Commission moved forward with decreasing community program investments with corresponding reductions in administrative and evaluation costs that are right-sized to manage the smaller program budget for an overall Proposition 10 budget of \$4.1 million.

Category	Baseline	Recommended Annual Expenditure
Administration	590,000	550,000
Data Collection/ Evaluation	170,000	140,000
Program Staffing	512,000	375,000
Internal Programs	235,000	163,000
Systems Change	452,000	450,000
Program Investments	2,976,779	2,422,000
Total	4,935,779	4,100,000

To allocate the \$2.4 million in program investments, the Commission received information on Goals 1-6 of its strategic plan based on the following:

- *Trends* – How are young children and families faring in Solano County in this goal area? This criterion also considered known geographic and demographic *Disparities* in the community.
- *Magnitude* – How many young children and families in Solano County experience challenges in this goal area?
- *Gap* – Are there other services available to meet the needs of young children and families in this goal area?
- *Leveragability & Partnership* – Are there funding and collaboration opportunities in this goal area?
- *First 5 Impact* – Can First 5 Solano make a difference in this goal area? This criterion is made up of two sub-criteria: *Reach* and *Outcome*. Reach refers to the ability of First 5 Solano to fill a gap in the community’s needs and is generally

based on the number of children and families that can be served in relation to the number who need services. Outcome, on the other hand, refers to the performance outcomes seen among the clients First 5 Solano serves.

Taking these criteria and their own expertise into account, the Commission rated each goal from low to high priority for funding. Commissioners' ratings were averaged to determine the order in which goals would be discussed for available funding.

The Commission then reviewed numerous aspects of its current program investments by funded initiative, including:

- Ability of strategies to create the desired results
- Number of children and families served in relation to the need (reach)
- Dosage (single touch to intensive services)
- Leveraging potential.

The Commission considered multiple options under each initiative to determine allocations of funding for its programs. These allocations are outlined in the 2016-2018 Program Investment Plan.

The Commission was provided with several 10 year funding scenarios which detailed options for future investment:

- Spend at the current level for seven years until the reserves are depleted in FY2023/24
- Spend at the current level for five years at which time the Commission would step-down funding to \$3.4 million and continue to draw on reserves for another five years until reserves are fully expended in FY2026/27
- Spend at the current level through FY2018/19 and step-down \$300,000 every three years, which would also fully expend reserves in FY2026/27.

The Commission chose to move forward with a \$4.1 million Proposition 10 allocation annually for FY2016/17 and FY2017/18, at which time the Commission intends to revisit the assumptions and the program/policy landscape to make further funding determinations.

As past practice with the LTFP, the 2016 LTFP funding model utilizes the FY2016/17 level of spending with a stable level of funding up to FY2022/23. (See Appendix C: Financial Model for more detail.) However, if the Commission makes future financial decisions, such as reducing spending prior to FY2022/23 or keeping a minimum amount in reserve, this would change the LTFP model and the financial outlook of the Commission.

After reserves are depleted, the Commission's resources for program investment, program support and other operating costs will be limited to its annual Prop 10 allocation, interest earned, and any other revenue sources that the Commission secures.

IV. Future Fiscal Landscape and Systems Change

As anticipated, Proposition 10 Tobacco taxes continue to decline. The Commission has and continues to strategically utilize its reserves to ensure provision of critical services in the community for young children. However, the Commission acknowledges this financial approach of utilizing funding from its reserves on an ongoing basis is not sustainable for the long-term.

This fiscal reality sets the stage for First 5 Solano to prioritize its investments in ways that allow it to live within its means, complement other efforts happening around the county, and achieve lasting change in the early childhood system. First 5 Solano has institutionalized this expectation through the adoption of a new Priority Area in its 2016 Strategic Plan Update: System Change.

As one expectation of the System Change work, the Commission is looking to its funded partners to contribute to solutions that effectively seek to resolve this fiscal imbalance. First 5 Solano staff will work with grantee partners and other community leaders to proactively pursue new opportunities to obtain or leverage resources that support the early childhood system in Solano. In addition, funded direct service partners will work with First 5 Solano staff to take a critical look at their respective funding portfolios in the context of the entire early childhood system.

The work of First 5 Solano staff, the grantee partners and other community leaders will help inform the Commission's decision making for funding beyond the first few years of this LTFP. Resources may flow to First 5 Solano or to another partner in the county which will help distribute and institutionalize the funding responsibility within the community.

As the Commission faces its long-term legacy, it is incumbent upon all strategic partners to identify a systemic change in the way the early childhood system is funded; the entire Solano early childhood community is critical to ensuring crucial supports for early childhood are sustained beyond First 5 Solano's available resources.

APPENDIX A: Interrelation of Planning Tools

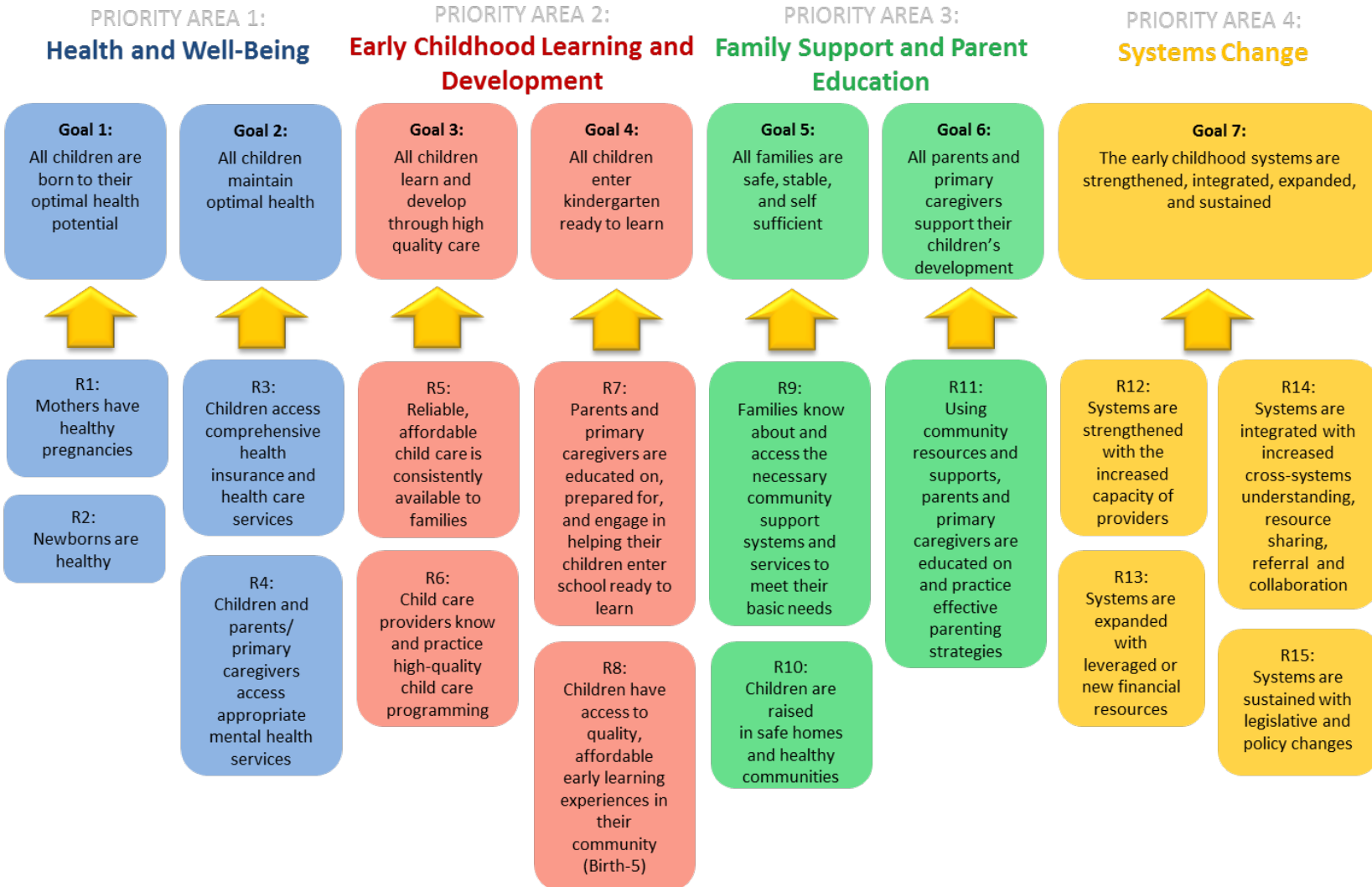
First 5 Solano Children and Families Commission Interrelationship of Planning Tools

	Strategic Plan	Evaluation Framework	Long Term Financial Plan	Multi-Year Program Investment Plan	Annual Budget
Purpose	Set vision and priorities	Make the Strategic Plan measurable	Provide long-term policies and projections for funding priorities	Communicate how funds will be allocated among highlighted Goals	Translate vision into action through detailed spending plan
Key Functions	<ul style="list-style-type: none"> • Set Priorities for 10 years • Highlight Goals for 2-5 years 	<ul style="list-style-type: none"> • Identify and attach Indicators to the Results in the Strategic Plan • Track program performance and contributions to positive movement in community-level Indicators 	<ul style="list-style-type: none"> • Forecast by type of revenue or expense • Quantify amount of program investment each year • Establish policies on use of financial resources 	<ul style="list-style-type: none"> • Review recent allocations against LTFP policies • Direct program investment funds to grant programs and to highlighted Goals • Provide a timeline for funding 	<ul style="list-style-type: none"> • Provide specific forecasts and expenditure plans by revenue and expense accounts
Scope	Broad	Moves from broad to specific	Broad	Moves from broad to specific	Specific
Planning Horizon	10 years	Aligns with the Strategic Plan	10 years	3-5 years	One year
Revisions	Annual Review 2 Year Update	Annual Review 2 Year Update	Annual Review 2 Year Update	Annual Update	Annual Creation Continuous monitoring
Does not...	Make specific spending commitments	Identify all program performance indicators	Obligate future Commissions to specific funding or authorize contracts	Specify grantees or contracts	Guarantee future funding to current grantees

Adapted from Proposition 10 Financial Planning Guidebook, June 2002, page 18

APPENDIX B: First 5 Solano Strategic Framework

2016 FIRST 5 SOLANO STRATEGIC FRAMEWORK



Overarching Principles: Evidence-based, trauma-informed, focused on high risk/need, access, coordination, collaboration, and leveraging

APPENDIX C: Financial Model

First 5 Solano Children and Families Commission
2016 LONG TERM FINANCIAL PLAN UPDATE
 Model Revision November 2015

CATEGORY	FY2012-2016	FY2016-2018		FY2018/19 and Beyond							
	Y4	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
	Budgeted FY2015/16	Projection FY2016/17	Projection FY2017/18	Projection FY2018/19	Projection FY2019/2020	Projection FY2020/21	Projection FY2021/22	Projection FY2022/2023	Projection FY2023/24	Projection FY2024/25	Projection FY2025/26
REVENUE											
Fund Balance (Beginning)	8,812,636	7,131,141	6,689,615	6,143,451	5,495,091	4,747,504	3,654,685	2,467,041	1,187,133	0	0
Tobacco Tax - Prop 10	3,311,173	3,176,200	3,073,327	2,973,316	2,876,683	2,783,191	2,692,737	2,605,223	2,520,554	2,438,636	2,359,380
Interest	35,251	28,525	26,758	24,574	21,980	18,990	14,619	9,868	4,749	0	0
Matching Funds	841,313	848,750	248,750	248,750	248,750	-	-	-	-	-	-
Other	20,000	-	-	-	-	-	-	-	-	-	-
Unexpended funds returned to LTFP	309,960	205,000	205,000	205,000	205,000	205,000	205,000	205,000	185,622	121,932	117,969
TOTAL REVENUE	4,517,697	4,258,475	3,553,835	3,451,640	3,352,414	3,007,181	2,912,356	2,820,092	2,710,924	2,560,567	2,477,349
Total Available Resources	13,330,333	11,389,615	10,243,451	9,595,091	8,847,504	7,754,685	6,567,041	5,287,133	3,898,057	2,560,567	2,477,349
APPROPRIATIONS											
<i>Program</i>											
Salaries, Benefits, Services and Supplies	565,784	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000		
Priority 1 - Health and Well Being	2,082,263	1,366,000	766,000	766,000	766,000	766,000	766,000	766,000	766,000		
Priority 2 - Early Care & Education	763,016	676,000	676,000	676,000	676,000	676,000	676,000	676,000	676,000		
Priority 3 - Family Support & Parent Education	1,056,121	860,000	860,000	860,000	860,000	860,000	860,000	860,000	860,000		
Priority 4 - First 5 Futures	352,000	-	-	-	-	-	-	-	-		
Priority 4 - Systems Change		450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000		
Other	620,000	283,000	283,000	283,000	283,000	283,000	283,000	283,000	283,000		
Evaluation & Data Collection	170,000	140,000	140,000	140,000	140,000	140,000	140,000	140,000	140,000		
Total Program	5,609,184	4,150,000	3,550,000	3,550,000	3,550,000	3,550,000	3,550,000	3,550,000	3,550,000	-	-
<i>Administrative</i>											
Total Administrative	590,008	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000		
Administrative Percentage	10%	12%	13%	13%	13%	13%	13%	13%	13%		
TOTAL APPROPRIATIONS	6,199,192	4,700,000	4,100,000	4,100,000	4,100,000	4,100,000	4,100,000	4,100,000	3,898,057	2,560,567	2,477,349
Net Increase/Decrease	(1,681,495)	(441,525)	(546,165)	(648,360)	(747,586)	(1,092,819)	(1,187,644)	(1,279,908)	(1,187,133)	0	0
Fund Balance (Ending)	7,131,141	6,689,615	6,143,451	5,495,091	4,747,504	3,654,685	2,467,041	1,187,133	0	0	0
Assumptions:	Prop 10 revenue estimates by BOE through FY2018/19 then decline at 3.25% Expenditures continue at currently FY2016/17 funded level Only Secured Matching Funds in Revenue and Expenditure Interest at rate of 0.4%										