



THE \$2 BILLION MYTH – PROP 10 FUNDS AND THE STATE BUDGET

FUND BALANCES, RESERVES AND THE BUDGET: THE CURRENT CONTROVERSY

Probably the most troubling aspect of the Prop 10 discussions has been the shifting characterization of fund balances as “reserves”.

FACTS

The primary source of funding for most First 5 commissions is from a share of Prop 10 tobacco taxes.

The tobacco tax is declining revenue.

- There is nothing new about this point: as fewer people smoke, less tobacco is purchased. That’s why many commissions have seen an over 20% drop in annual tobacco revenues since 1999, the year our program started.

Commissions consciously plan for declining revenue.

- Unlike other governmental agencies, First 5 Commissions have no entitlement programs. We do not legally bind ourselves to spend money we will not receive.

First 5 Commissions deliberately do not spend all of the money received every year.

- Instead, we have established comprehensive financial plans to support critical programs. In addition, we commit to multi-year funding of innovative, successful programs. These fiscal plans and reserves are based on projections of decreasing revenue, and the desire to sustain meaningful programs.

The budgeting practices described above are practices accepted among the Prop 10 commissions as responsible and forward-thinking.

- Some have suggested that Prop 10 commissions spend all of their funding within the year that it is received and worry later about our declining funds. That approach is not based upon sound fiscal management principles and would have increased the impact of the current state budget crisis upon California’s youngest children.

STATEWIDE EFFORTS

At the statewide level, it is clear that Prop 10 has had a major beneficial impact on children’s care in California, and we are looking at ways to immediately strengthen this system through a more strategic, statewide effort.

FUND BALANCES

Fund balances are very straightforward – they reflect the cash balances as of a certain date: the most recent financial report is for July 1, 2007

- Keep in mind that while fund balances are a great point-in-time snapshot of funds, they don't reflect encumbrances or obligations and are not intended for that purpose.
 - In the case of Prop 10, critics noted that approximately \$2 billion in county commission fund balances have been reported as of July 1, 2007. This money is alluring to some since it has been presented as “found money” available to address the current budget shortfall.
 - To quickly illustrate the flaws with that portrayal, approximately half of the total, cited statewide fund balance is in two counties, Los Angeles and Orange counties. Of the Los Angeles total, over 60% is encumbered in a single multi-year program to provide preschool in the county's lowest income communities. The First 5 LA Commission has allocated all remaining funds for early education, health and safety programs. Orange County has encumbered agreements and specific funding commitments that cover most of the fund balances, including multi-year funding of critical dental and medical services and school nurses at every school district in the county

First 5 Commissions have been very proactive in working with community partners to address the major needs of children throughout our counties.

- The reserves that have been established are solely for sustaining key programs directed to child wellness, education and family support. Should these programs be curtailed there is no other safety net to capture the needs being addressed.

SUMMARY

The budget shortfall facing California requires a serious examination of innovative solutions, not inflated and misleading statements of available funds.

- We are actively involved in efforts at both the statewide and local level to address the impacts of the budget shortfall and look forward to working with your offices in the months ahead.

The loss of First 5 funds will eliminate a comprehensive range of child development services funded and supported by First 5.

- Prop 10, First 5, funds are invested in a wide range of programs that will support families and children in the face of increasing local budget difficulties: access to health care, quality child care, and early education; supports to families to prevent growth in child welfare and foster care caseloads; screening to improve child health outcomes and diagnose conditions early, when treatment is least costly and most effective; and school readiness programs that address the needs of children most likely to fall through the “achievement gap” and require later costly intervention.