February 19, 2009

Dear Commission, Advisory Board, Funded Partner, Staff

As you know, early Thursday morning the Legislature passed the state budget and a number of implementing bills, including one (AB X3 17) that will divert Prop 10 revenues and have a significant impact on First 5 at both the state and county levels. This letter discusses what we know at this point in time and identifies questions yet to be answered. **ABX3 17 will go before the voters as a ballot initiative in a special election on May 19.** The legislation contains the following provisions:

1) Specifies that Prop. 10 funds shall be used to provide direct health care services, human services, including services for at-risk families who are involved with the child welfare system administered by the county welfare department, and direct early education services, including preschool and child care.

    - *The bill does not define what is meant by "direct services." We do not yet know what impact this language might have on First 5 investments designed to build capacity, such as training, program development, or even funding of insurance premiums. (e.g. Is a premium a direct service? Is teacher training a direct service?) This is something that is yet to be determined if the voters enact the ballot initiative.*

2) Eliminates the state commission's Mass Media Communications Account and its 6% allocation for expenditures for communications related to the purposes of Prop. 10.

    - *The Kits for New Parents is contained in this account. We do not know what the future of the Kit will be.*
    - *Additionally, Los Ninos en Su Casa and A Place of our Own come from this account.*

3) Increases the percentage of funding to the state commission's Unallocated Account from two to eight percent and requires that funds in this account be used to ensure that every county commission has a base level of funding of at least $400,000.
    - This will allow a level of viability for the small counties in the State

4) Redirects up to $340 million, but no less than $275 million, of state commission funds that are not encumbered or expended by July 1, 2009, to support state health and human services programs for children up to five years of age.

- *It is unclear what will be considered to be "encumbered" and what impact this loss from the state commission fund balance will have on state-county First 5 matching grant programs.*

5) Redirects $268 million annually for five fiscal years starting with 2009-2010 to the Proposition 10 Health and Human Services Fund to be appropriated by the Legislature to support health and human services programs for children up to five years of age as part of the annual budget process.

   - *The reduction of revenue by $268 million per year for 5 years is approximately 50% of current revenue. However, given the annual 5% reduction in funds and the impact of the SCHIP tobacco tax (causing an estimated reduction to the tobacco tax of 10%), it is likely that by the fourth or fifth year we will see a reduction of 65% or more. The remaining funds, after the redirection, will be split 20% state, 80% county.*

   - *It is not clear how these funds will be distributed or accounted for*

6) Exempts these redirections from non-supplantation provisions included in Prop. 10.

   - *Redirected Prop 10 funds can now be used to pay for existing and mandated state services rather than program enhancement and expansion.*

7) Specifies that state health and human services programs for which these redirected funds can be used include, but are not limited to, early intervention and prevention services for infants and toddlers with developmental disabilities, child welfare services, adoption assistance, foster care, kinship guardianship assistance payments (Kin-GAP), and direct health care services.

8) Requires that the audits and reports of each county commission be transmitted to its respective board of supervisors, the county auditor, and to the state commission. In addition, requires a county auditor to serve on the local county commission on an ex-officio capacity.

   - *Commissions have no objection to sharing audits and reports with any interested parties. Although commissions act independently from their Boards of Supervisors, they have an on-going relationship because Commissioners are appointed by the Board, and a Supervisor serves on every commission. In Santa Barbara County, we have actively coordinated with our County Auditor's Office throughout the history of First 5.*

9) Permits a local controller to access the funds appropriated to local commissions as cash-borrow able source through loans to the county General Fund, but specifies that such borrowing may not interfere with the carrying out of the object for which the Prop 10 revenues were created.

- *It is unclear who will determine whether or not such borrowing would interfere with carrying out the purpose of Prop 10; this provision could result in local commissions having less control over cash flow and fund balances.*

Along with ABX3 17, the Legislature adopted the title and summary for the ballot initiative that will go before the voters on May 19:

"CHILDREN'S SERVICES FUNDING. Temporarily provides greater flexibility in funding to preserve health and human services for young children while helping balance the state budget in a difficult economy."

"PROTECTS CHILDREN'S SERVICES FUNDING. HELPS BALANCE STATE BUDGET. Provides more than $600 million to protect children's programs in difficult economic times. Redirects existing tobacco tax money to protect health and human services for children, including services for at-risk families, services for children with disabilities, and services for foster children. Temporarily allows the redirection of existing money to fund health and human service programs for children 5 years old and under. Ensures counties retain funding for local priorities. Helps balance state budget."

Potential Impact on First 5 Santa Barbara County

1. Currently First 5 Santa Barbara County receives an allocation from Proposition 10 tobacco tax of approximately **$5,010,000.** Through additional funding from public and private partnerships First 5 has an overall budget of $7,759,225. Of those dollars, $790,000 is brought down through State First 5 for targeted initiatives.

2. It is estimated that First 5 counties will receive approximately a 10% decrease in funding through the impact of the new federal tobacco tax instituted in the reauthorization of SCHIP. Additionally, we are experiencing a 3.8% decrease in revenue through ongoing decline in the sale of tobacco products.

3. Through the proposed 50% decrease in revenue through ABX 317, the additional reduction in funding to the County would be approximately $2,505,000 and would significantly impact the Commission from its ability to draw down funding through matching grants.

4. In addition to the funding that First 5 is able to generate internally, the agencies funded by First 5 are able to generate over $2,211,749 in State, Federal and private dollars

directly supporting the key initiatives focusing on young children. Most of those dollars would be lost through the decrease in funding if the allocation is impacted.

5. First 5 have utilized extensive long range fiscal planning to maximize sustainability of programs through decreasing funding.

6. First 5 invest funding in public and non-profit agencies for programs directed to the needs of children age 0-5. Primary programs address the areas of:

- Early Care and Education
- Early Child Health
- Early Mental Health and Other Special Needs
- Home Visitation of Newborns
- and Family Strengthening

7. Radical decreases in funding will impact communities who need supportive services the most. Our communities who are being impacted the most by the current fiscal climate are the same communities that are receiving the greatest levels of services through First 5 programs.

8. In addition to these serious programmatic cuts, it is important to recognize that there are many public and non-profit agency staff who will lose employment through the ending of these programs.

9. Many of the highly integrated services that have been developed over the last 10 years of funding would be severely impacted and many would end.

10. At the end of the 5 year reduction of funding, the long-term investment of funding, capacity building and system change in services directed to the needs of young children will have been severely impacted, and much of the work will have to begin again.