

Proposition 1D: Children and Families Trust Fund Act

Board Action:

SUPPORT

Rationale:

Passage of Proposition 1D would utilize reserves from the *First Five Program* to help balance the FY09-10 state budget deficit. Further, it would temporarily redirect funds from the *First Five Program* to address future budget concerns. Prop 1D ensures that those redirected funds are utilized only for those state programs that address the needs of children 5 years old and younger. Finally, Prop 1D amends current legislation to augment local fiscal oversight of the *First 5 Program*.

Background¹:

In January 2009, it was projected that the State would face a \$40 billion shortfall over fiscal years FY08-09 and FY09-10 if no corrective actions were taken. In February, the Governor and the Legislature agreed on a package to balance the current year and FY09-10 budget. This package is anticipated to generate \$98 billion in revenue and spend approximately \$92 billion. The remaining \$6 billion will cover the FY08-09 deficit and build up reserves.

As part of the budget package, six propositions were placed on a special election ballot to be held on May 19th. The FY09-10 budget depends on access to \$6 billion outlined within these measures. If voters approve all of the measures, it is expected that the state will still face multi-billion-dollar budget shortfalls in the coming years.

Proposition 10: The Children and Families First Act²

Proposition 10 (FY98-99), also known as “The Children and Families First Act” was a constitutional amendment to the State of California to improve funding for early childhood development. Revenue was generated through a \$.50 per pack tax on cigarettes and a \$1.00 dollar tax on other tobacco products. This revenue is deposited into the *California Children and Families Trust Fund*. Prop 10 funds have ranged from \$400 million to \$750 million per year³. It is estimated that revenue generated for FY09-10 will be approximately \$500 million. Although tobacco has generated substantial revenue for the State, based on trends in tobacco consumption, it is expected that Prop 10 revenue will decrease annually by 3%.

Prop 10 funded various programs and services, also known as *First 5* programs. Passage of Prop 10 established a state-level commission which receives 20% of the funding from

¹ Overview of the State Budget. California Legislative Analyst’s Office. February 25, 2009

² Overview of Children and Families Act. California Legislative Analyst’s Office. February 25, 2009

³ Summary of Legislative Analyst’s Estimate of Net State and Local Government Fiscal Impact

Prop 10. Local commissions were also established for each of the counties in the State, which collectively receive the remaining 80% of the revenue from Prop 10. Local commissions were established to ensure that county-specific issues are addressed under the oversight of those who best understand the needs of their communities.

State Commission

The State Commission is responsible for administering statewide leadership, policy development, public education, and outreach. Such programs may include:

- School Readiness for children under 5, which prepares them for transition into elementary schooling
- Health Access for children who lack insurance and do not qualify for state support
- Parental education for new parents

The State Commission allocates its portion of Prop 10 revenues towards the following:

Figure 1 Allocation of Proposition 10 Revenues to the State Commission	
Purpose	Allocation
Mass media communications	6%
Education	5
Child care	3
Research	3
Administration	1
General program purposes	2
Total Allocation	20%

Source: LAO analysis Ca Children and Families Act

Local Commission

Local Commissions implement programs in accordance to local planning to support and improve early childhood development in their communities based on their needs. Of the 80% of Prop 10 funding towards county commissions, funds are allocated to different counties based on the number of births within the county that the commission serves⁴. Programs vary from county to county, but may include such programs:

- Family functioning, aimed at adult education in mental health and substance abuse
- Child development focusing on pre-schooling for children 3-4 years of age, transitioning services into kindergarten, and identifying individual children with special needs
- Child health, including health coverage and parental care

⁴ First 5 Ca 2006-2007 annual report

First 5 San Diego

First 5 San Diego is the Local Commission administering programs and services within San Diego County. As of June 2008, revenues received by San Diego totaled approximately \$50 million. *First 5 San Diego* currently holds approximately \$195 million in unspent reserves. Programs and services include:

- First 5 Healthy development program/ Health Access Program
- First 5 Oral Health
- Obesity Prevention
- First 5 San Diego Pre-school For All/ School Readiness Program
- Capital Projects (Facility renovation)

Proposal:

The Proposition 1D ballot label will read:

CHILDREN’S SERVICE 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. Fiscal Impact: State General Fund savings of up to \$608 million in 2009-10 and \$268 Million from 2010-11 through 2013-14. Corresponding reductions in funding for early childhood development programs provided by the California Children and Families Program.u

In an attempt to close the State’s \$42 billion budget gap, this measure temporarily redirects a significant portion of Prop 10 funds to achieve budget savings and make permanent changes to State and Local Commission operations. In effect, these revenues would be used to offset the existing State General Fund deficit.

Currently, under Prop 10, the State Legislature cannot appropriate reserves. Instead, reserves are carried over to subsequent fiscal years in addition to its annual tax revenue. As of June 30th, 2008, the Local Commissions collectively held approximately \$2.1 billion in reserves, and the State Commission held approximately \$400 million.

Temporary Redistribution of Funding

The passing of Prop 1D will redirect \$340 million in current unspent reserves held by the State Commission, plus a portion of the revenue generated for year FY09-10, for a total of \$608 million to the state Health and Human Services Fund, which would be established with voter approval of Prop 1D. Additionally, Prop 1D will temporarily redirect \$268 million annually of future Prop 10 revenues from FY09-10 through FY13-14 to the Health and Human Services Fund. Of this \$268 million annual redirection, \$54 million would come from the State Commission and \$214 million would come from Local Commissions. These funds would be subject to appropriation by the legislature for the next five years. It is estimated that Prop 1D will redirect \$1.7 billion over the next 5 years to address the state deficit. The Health and Human Services Fund may only be used

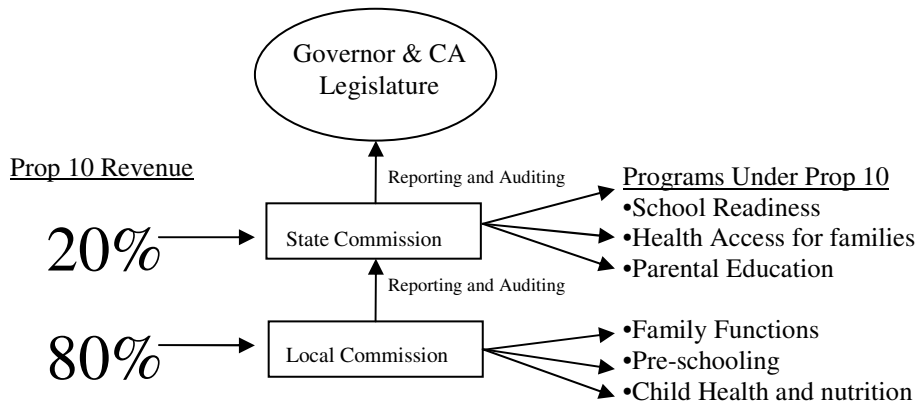
to fund programs which benefit children under age 5. Such programs include, but are not limited to⁵:

- Foster Care
- Health Coverage
 - Medi-Cal
 - Healthy Families
- Pre-schooling
- Childcare
- Adoption

Changes in Reporting and Auditing

Other permanent changes of this measure will address new requirements for distribution of reports and audits. Under current measure, local commissions conducts independent audits and reports and then submit it to the State commission for reporting to the Governor and State legislature. Under Proposition 1D, new requirements for distribution will require that the Local Commission submit their annual audits and reports to the County Board of Supervisors and County Auditor as well. In addition, the County Auditor will be required to serve on the Local Commission.

Reporting and auditing under Prop 10



Reallocation of State Commission Funding

With passage of Prop 10, of the 20% of funding that the State controls, the allocation for mass media communications (aimed at educating the public on issues such as the risk of smoking and the dangers of second hand smoke) will be discontinued. This reduction would allow a synonymous increase in the allocation of the General Program purposes, which can be used to cover cost of specific program purposes except for the State’s administrative costs. This increase will go from 2% to 8%, which translates from \$5.36

⁵ Section 130105, Paragraph (H)

million to \$21.44 million for FY07-08. Passage of Prop 10 would also require the state commission to guarantee every county commission at least \$400,000 each fiscal year.

County Borrowing of First 5 Funds

With passage of Prop 1D, a county controller may borrow their Local Commission funds to support the local general fund under the condition that it will be paid back with interest. This is conditional given that the loan does not interfere with the current activities of the program. No payback schedule has been outlined according to the ballot language.

Fiscal Impact:

State General Fund Savings

Passage of Prop 10 would achieve state savings of up to \$608 million in FY09-10 and \$268 million annually from FY10-11 through FY13-14. Of the \$608 million redirected to the General Fund for FY09-10, \$340 million will come from unspent reserves currently held by the State Commission and \$268 million will come from revenue generated this fiscal year. Of the \$268 million redirected annually from FY10-11 through FY 13-14, \$54 million will come from the State, and \$214 million will come from Local Commissions. Redirected funds will be used to supplant expenditures to state-supported health and human services programs for children up to age five. Redirected funds will total about 34% of *First 5 Program* revenues, or \$1.7 billion,⁶ over the next 5 years.

Other fiscal impacts

The reduction in State and Local *First 5* commission funding could result in reduction of those State and County programs currently provided under the *First 5*. Those individuals who benefit from *First 5* programs will have to seek assistance through other, possibly more expensive, means. However, even if Prop 1D were to fail, programs that benefit children aged 5 years and younger may still be subject to cuts. Absent this measure, other budget reductions or revenue increases are necessary to address the state's severe fiscal problems.

⁶ \$340 million in unspent reserves plus a portion future revenues of \$268 million over the next 5 years