

FIRST 5 DEL NORTE
CHILDREN AND FAMILIES COMMISSION



FIVE-YEAR
FINANCIAL PLAN
2007 - 2012

October 31, 2007

Del Norte Children and Families Commission
494 Pacific Avenue
Crescent City, CA 95531

Phone: (707) 464-5500
Website: www.delnortekids.org

First 5 Del Norte
FIVE-YEAR FINANCIAL PLAN

Table of Contents

INTRODUCTION	1
FINANCIAL OBJECTIVES AND PRINCIPLES	1
FISCAL STRATEGIES	2
FUTURE REVENUE AND EXPENSE ASSUMPTIONS.....	4
FIVE-YEAR FINANCIAL FORECAST	8



FIVE-YEAR FINANCIAL PLAN

Introduction

The Del Norte Children and Families Commission (referred to as “the Commission” throughout) has developed this financial plan to help address the challenges of sustained financing for projects and services supported by FIRST 5 Del Norte. A financial plan is a management tool for attracting and allocating financial resources within a specified time period in order to achieve long-term goals. This plan covers a five-year period from July 1, 2007 through June 30, 2012.

The five-year financial plan is a companion document to the strategic plan for FIRST 5 Del Norte. The strategic plan describes the mission, vision and values of the Commission, specifies the long-term goals and shorter-term objectives for enhancing the health, development and well-being of children age 0 to 5 and their families, and defines the strategies that will be used to achieve those goals and objectives. This financial plan shows how the necessary financial resources to carry out the strategic plan will be acquired and managed. In other words, the purpose of this plan is to help provide the Commission with the *capacity* (through dollars and fiscal strategies) to invest in projects and services each year while also fulfilling the many legal mandates imposed upon the Commission.

Financial Objectives and Principles

Financial objectives describe what the financial plan should accomplish, consistent with the overall strategic plan for FIRST 5 Del Norte. The financial objectives established by the Commission for the five-year period covered by this plan are:

1. Cover the Commission’s financial obligations under the \$1.2 million loan from the County of Del Norte for the property purchase and construction of the new Family Resource Center (FRC) in Crescent City.

2. Keep financial reserves at or above the June 30, 2007 level, and eventually increase the level of reserves to \$235,000 so that one year of revenue from tobacco tax allocations is held in reserve. This reserve provides a financial “safety net” to maintain programs and services in the event of temporary revenue shortfalls or fluctuations in future years.
3. Sustain the activities described in the strategic plan for the five-year period covered by the plan and beyond. Financial sustainability should occur at two levels:
 - The “content” level, consisting of the FRCs and other programs and services for children and families funded or otherwise supported by the Commission; and
 - The “context” level, consisting of the FIRST 5 Del Norte infrastructure (Commission, staff and operations) needed to carry out the work of FIRST 5.

Principles are guidelines for how the financial plan will be used to support short- and long-term funding and policy decisions. The following principles were adopted by the Commission for this plan:

1. This financial plan provides an overall framework for managing financial resources. It does not, however, obligate the Commission to specific funding decisions such as allocation of funds to particular programs or projects. Approval of specific grants, contracts, and budgets can only occur through special action of the Commission in public meetings and are not in any way authorized by this financial plan.
2. This plan will be used as a starting point in developing the budget each year for FIRST 5 Del Norte. The financial forecast in this plan contains revenue and expense targets for each year, which can help inform the budgeting process.
3. The plan may be amended at any time as new information becomes available that affects future revenues or expenses, but at a minimum it will be reviewed annually at the same time the strategic plan is reviewed.

Fiscal Strategies

This section of the plan contains fiscal strategies that will be pursued in order to achieve the financial objectives listed in this plan and to provide the financial resources necessary to carry out the strategic plan.

1. **Cultivate new sources of funding.** A fund raising component will be developed to cultivate funding from sources other than FIRST 5 tobacco tax allocations and funds from FIRST 5 California. Fund raising can be done in partnership with other agencies. Three specific approaches that can generate funds from new sources are:
 - a. Pursue grants from both private foundations and public (state and federal) sources to support programs, services and activities for children and families.
 - b. Launch a capital campaign for the new FRC in Crescent City to engage the community in ensuring that the resources are available to pay off the FRC mortgage and sustain FRC operations.
 - c. Market the existing funds at the Wild Rivers Community Foundation such as the FRC Building and Endowment Funds as an avenue to promote private giving.
2. **Continued use of state School Readiness funds.** FIRST 5 California offers a dollar-for-dollar match, up to \$100,000 per year, to help fund programs and services meeting state guidelines that promote children's readiness to succeed in school upon entry. An additional \$25,000 per year is available for county program coordination. FIRST 5 Del Norte plans to continue participating in the statewide School Readiness Initiative over the next four years (fiscal years 2007-08 through 2010-11) in order to fully leverage these state funds.
3. **Lobby for continuation of state Small County Augmentation Project funds.** Recognizing the complexity of FIRST 5 implementation and the many legal mandates imposed on County Children and Families Commissions, FIRST 5 California has historically provided additional financial support to the smallest population counties through the Small County Augmentation Project (SCAP) so that every county can afford an adequate operating infrastructure (staff, office costs, audit fees, etc.). Del Norte County received \$111,813 in SCAP funds in fiscal year 2006-07. Agreement has not been reached on continuing these augmentation funds for fiscal year 2007-08 and beyond, as FIRST 5 California is seeking to reduce the impact of this funding stream on their budget. FIRST 5 Del Norte will participate actively in advocating for the continuation of SCAP funds, as these funds are critical to supporting an effective operating structure to carry out the work of FIRST 5 in Del Norte County.
4. **Consider ways to generate income from the FRC facility.** The Commission will consider implementing charges and policies for use of

the new FRC facility, particularly to rent out the facility for corporate and private functions during periods it would otherwise go unused.

5. **Coordinate resources and funding through partnerships.** FIRST 5 Del Norte will work closely with other community agencies to coordinate both fund raising activities and the use of resources so that the yield from fund raising efforts is maximized while expenses are managed to be efficient.
6. **Use volunteers and other sources of free/low-cost personnel.** One strategy for managing costs is to engage community volunteers to help carry out the work of FIRST 5. This has historically been done by attracting AmeriCorps and VISTA volunteers through the statewide FIRST 5 Service Corps program. In the future, other sources of volunteer and low-cost staffing will be pursued, including but not limited to Rural Human Services and the Retired and Senior Volunteer Program (RSVP).

FIRST 5 Del Norte also owns property adjacent to the new FRC site in Crescent City. There are no current plans to sell or develop this property in any way. For purposes of financial planning, it will be retained as a valuable asset for which future uses can be considered to further the mission of FIRST 5.

A Financial Planning and Fund Raising Committee may be established in order to coordinate and provide support for these various strategies so that the Commission's financial goals can be met.

Future Revenue and Expense Assumptions

The heart of the financial plan is a set of assumptions about what is projected to occur in the future. These assumptions shed light on important financial issues, such as where the greatest opportunities exist to improve the future financial capacity for investing in the well-being of young children as well as where the greatest risks lie for future revenue reductions and expense increases. They also serve as the foundation for the five-year forecast of revenues and expenses contained in this plan.

Assumptions affecting the projected financial future of FIRST 5 activities in Del Norte County are outlined below, grouped into categories of assumptions about revenues and assumptions about expenses (both programmatic and administrative).

REVENUE ASSUMPTIONS

Statutory allocation of tobacco tax revenues to Del Norte County. State law specifies that 80% of statewide tobacco taxes raised through the 50 cent-per-pack tax imposed by Proposition 10 are allocated to the 58 counties according to each county's birth rate. Under this formula, Del Norte County received \$236,274 in fiscal year 2006-07, down from \$259,234 in fiscal year 2005-06. The county's birth rate has been climbing, which would increase the allocation to the county, but statewide tobacco tax collections continue to decline slowly but steadily. Because of these counterbalancing factors, this plan assumes that tobacco tax revenues allocated to Del Norte County will hold steady for the first two years of the plan and then decline at a 3% annual rate for the remaining years of the plan.

State administrative and travel expense augmentations. Del Norte County has been receiving approximately \$111,800 a year from FIRST 5 California for administrative and travel costs through the Small County Augmentation Project (SCAP). As noted in the Fiscal Strategies section, continuation of these funds has not yet been approved by FIRST 5 California but it is expected that an agreement will be reached between FIRST 5 California and the 58 County Children and Families Commission to maintain SCAP funding. The financial plan therefore assumes that these augmentation funds will be continued for the next five years at historical levels, without either an increase or decrease in funds.

School readiness matching and implementation funds. The financial plan assumes that Del Norte County will draw down the maximum available state funding for School Readiness programs, which is \$100,000 per year of program funding and \$25,000 per year for county coordination for four years starting in FY 2007-08. In addition, there are \$50,000 of carryover funds from the previous School Readiness contract, which will split evenly over the four years from FY 2007-08 through FY 2010-11. This produces total state School Readiness funding of \$137,500 annually over this four year period. It is further assumed that state School Readiness funds will not be available after FY 2010-11.

Effects of future tobacco tax increases. The potential exists that additional taxes will be imposed on tobacco products in order to raise money to help cover large state budget deficits. These taxes could lead to further reductions in smoking, thereby also cutting Prop 10 revenues. The assumption used in this plan is that, if additional tobacco taxes are imposed, a backfill provision will be included by the state legislature so that Prop 10 revenues are not impacted.

FRC rent and operations income. FY 2007-08 income represents between 8.5 and 10 months of rent and operating cost contributions from the various tenants of the FRC (such as but not limited to the Del Norte Child Care Council and Del Norte County Department of Health and Social Services), based on the budget. Subsequent years of the forecast assume that tenants will be maintained at the same level, and annual cost increases will be passed on to the tenants based on the California Consumer Price Index (CPI) forecasts (see Operating Costs under the Expense Assumptions heading below). The ability to fully utilize the FRC space and maintain 100% occupancy of paying tenants is a central strategy toward paying the FRC operating costs. Starting in FY 2008-09, it is also assumed that \$5,000 of additional income can be generated per year by short-term rentals of space in the FRC for meetings and special events, and other such means of generating income from the facility.

Redwood Coast Regional Center contract. This line item is included from the FY 2007-08 budget. The forecast assumes that the contract will be continued throughout the five-year period; however, since program expenses related to this contract exactly match the income, it has no net effect on the overall financial position shown in the forecast.

AmeriCorps/VISTA reimbursements. AmeriCorps positions are included only through 12/31/2007 but two VISTA positions are included in the forecast throughout the five-year period.

Non-Prop 10 grants and contributions. The financial plan recognizes that tobacco tax revenues and additional allocations from FIRST 5 California are unlikely to be sufficient to achieve the long-term results sought for Del Norte County's children, so special efforts are needed to leverage core FIRST 5 funding to attract other resources and otherwise generate additional (non-Prop 10) income. The "Fiscal Strategies" section of this plan lists approaches for leveraging and supplementing core FIRST 5 funds. This plan assumes that, after a one-year startup period, additional funding of \$25,000 a year in grants and \$25,000 a year from other fund raising activities can be obtained by FIRST 5 Del Norte. It must be noted here that larger amounts of funding should be available to the Family Resource Centers but, per the intention of transitioning operation of the FRCs to a local nonprofit entity (as explained in the Strategic Plan document), it is expected that the nonprofit entity and not FIRST 5 will become the recipient of FRC funding in the future and so such funding is not included in the forecast.

Interest and other income. Minimal interest income is expected based on the projections of low and declining fund balances during the forecast period.

EXPENSE ASSUMPTIONS

Operating costs - general. The plan assumes that Commission and FRC staffing will continue at current levels over the five-year period. FY 2007-08 costs are taken from the annual budget adopted by the Commission. Costs in subsequent years of the plan are projected to increase each year according to the California Consumer Price Index (CPI) forecasts provided by the California Department of Finance for 2008 and 2009; the estimated CPI rate for 2008 is 2.6% and for 2009 is 2.7%. The 2009 estimated CPI rate is used as the inflation rate for the last two years of the plan because no inflation estimates are available beyond 2009.

Family Resource Center costs. Several important assumptions apply to the expenses to operate the FRC.

- The strategic plan calls for the FRC to be transitioned to a new nonprofit organization, which will take over responsibility for operating the FRC as well as pursuing outside funding. For purposes of this forecast, it is assumed that FIRST 5 Del Norte will continue to operate the FRC and pay all costs (less those reimbursed by other tenants, as reflected in the Revenues section) through June 30, 2009, by which time the nonprofit organization would be ready to assume control of the FRC. Starting in FY 2009-10, the forecast assumes that FIRST 5 Del Norte would continue to pay the building loan but the nonprofit entity would be able to generate sufficient funds to cover other operating costs (in excess of amounts reimbursed by other tenants in the building) so that additional FIRST 5 grants for operating costs would not be needed. Staffing and operating costs for FY 2009-10 through FY 2011-12 are therefore reduced to match FRC rent and operations income so that the net effect of the forecast for these years is that the building loan payments are the only financial contribution of FIRST 5 Del Norte to the FRC.
- The forecast assumes that the building loan payments remain at the current level and are not reduced through refinancing of the loan or fund raising to pay down the loan balance during the five-year period covered by the forecast.
- Costs for all years in the forecast are based on FY 2007-08 budgeted amounts, adjusted for inflation. There is a moderate degree of uncertainty about these costs because the FRC is so new; actual costs may vary from these estimates and require the forecast to be revised once better figures are available after six months or so of operating in the new facility.

School readiness program and coordination costs. In order to draw down the maximum \$100,000 per year of state School Readiness matching funds, \$100,000 in local cash match must be provided. The financial plan uses the FRC activities and other programs operated by FIRST 5 Del Norte toward

the cash match requirement, and assumes that all state School Readiness funds will be expended in the year in which they are received or available.

Other grants and programs. This line item reflects continuation of CalKIDS premium payments but otherwise assumes that no new grants will be issued during the forecast period due to lack of financial resources. Any new programs or services will need to be launched through partnerships and use of the Commission and FRC staff resources contained in the forecast.

AmeriCorps/VISTA position costs. As noted earlier, AmeriCorps positions are included only through 12/31/2007 but two VISTA positions are included in the forecast throughout the five-year period. It is assumed that costs for these positions will increase annually at the same rate as other salary and benefit costs.

Facilities expense. FY 2007-08 costs reflect rent for July and August. To avoid double-counting, no other rent expense is included in the forecast because FIRST 5 Del Norte is paying all rent and building costs as part of the FRC operating costs.

Professional services. FY 2007-08 costs include audit, legal, strategic and financial planning, and miscellaneous other support services. Future years assume that this line item can be reduced and held to \$20,000 per year.

Five-Year Financial Forecast

The following page shows projected income and expense levels over the next five years, based on the objectives, principles, assumptions and strategies contained in this financial plan.

**FIRST 5 DEL NORTE
Fiscal Year 2007 - 2012 Financial Projection**

	Five Year					FY 2011-12
	Total	2007-08	2008-09	2009-10	2010-11	
Revenues:						
Tobacco tax allocation	1,152,834	239,000	239,000	231,830	224,875	218,129
Small county augmentation funds	559,000	111,800	111,800	111,800	111,800	111,800
State school readiness funds	550,000	137,500	137,500	137,500	137,500	137,500
FRC rent and operations income	449,263	69,137	91,466	93,801	96,198	98,661
Redwood Coast Regional Center contract	61,000	12,200	12,200	12,200	12,200	12,200
AmeriCorps/VISTA reimbursements	55,859	14,659	10,300	10,300	10,300	10,300
Non-Prop 10 grants and contributions	200,000		50,000	50,000	50,000	50,000
Interest and other income	3,250	1,000	750	500	500	500
Total revenues	<u>3,031,206</u>	<u>585,296</u>	<u>653,016</u>	<u>647,931</u>	<u>643,373</u>	<u>501,590</u>

Programs and grants:

Family Resource Center						
Salaries and benefits	435,220	82,534	84,680	86,966	89,314	91,726
Loan payment	459,195	79,195	95,000	95,000	95,000	95,000
Other operating costs	120,487	49,276	50,557	6,834	6,884	6,935
Subtotal - Family Resource Center	<u>1,014,902</u>	<u>211,005</u>	<u>230,237</u>	<u>188,801</u>	<u>191,198</u>	<u>193,661</u>
School readiness programs	550,000	137,500	137,500	137,500	137,500	12,200
Redwood Coast Regional Center services	61,000	12,200	12,200	12,200	12,200	12,200
Other grants and programs	12,500	2,500	2,500	2,500	2,500	2,500
Total grants and programs	<u>1,638,402</u>	<u>363,205</u>	<u>382,437</u>	<u>341,001</u>	<u>343,398</u>	<u>208,361</u>

First 5 operating costs:

Salaries and benefits	875,345	165,998	170,314	174,912	179,635	184,485
AmeriCorps/VISTA position costs	107,167	27,200	19,200	19,718	20,251	20,798
Facilities expenses	7,600	7,600				
Professional services	107,200	27,200	20,000	20,000	20,000	20,000
Other direct operating costs	60,431	11,460	11,758	12,075	12,401	12,736
County interfund and indirect cost charges	98,167	18,200	19,200	19,718	20,251	20,798
Total operating costs	<u>1,255,909</u>	<u>257,658</u>	<u>240,472</u>	<u>246,425</u>	<u>252,538</u>	<u>258,817</u>

Net increase (decrease) in fund balance

Net increase (decrease) in fund balance	136,895	(35,567)	30,107	60,505	47,437	34,412
Beginning fund balance, 7/1/2007	60,000					
Projected ending fund balance		24,433	54,540	115,046	162,483	196,895