



FIRST 5 SOLANO

2023 LONG TERM FINANCIAL PLAN UPDATE

APPROVED DECEMBER 14, 2022



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I. Introduction and Background

Introduction

The First 5 Solano Children and Families Commission's (First 5 Solano) Long Term Financial Plan (LTFP) is designed to directly support the Commission's Strategic Plan and its ongoing investments. It provides a framework that helps the Commission view the long-term financial impacts of First 5 Solano's program and system change investments that support activities and services for children and families in Solano County.

In 2004, First 5 Solano was one of the first Commissions in California to establish a LTFP with previous updates taking place in 2013 and 2016; each update adjusted for differing levels of investments and considered changes in the landscape of the Commission. This 2023 LTFP Update again establishes a consistent level of investment and considers multiple changes in the landscape, including:

- Proposition 10 tobacco tax funds are not declining as rapidly as once projected
- Interest is no longer a significant source of revenue
- First 5 Solano has diversified and increased its revenue portfolio to include more grant funds as well as funds from the state budget and other public sources resulting in an average of \$2 million secured annually for the last 4 years
- Since 2018, the Commission has been budgeting program expenditure based on the amount of anticipated revenue. In these years, revenue has come in higher than expected and program expenditure has been lower than budgeted which has led to an increase in the Commission's reserve
- SB 395 went into effect July 2022 which provided a new tax on electronic cigarettes at a rate of 12.5% of the purchase price; 12% of the funds collected will be going to First 5s; there were no projections available to measure the effects of this change on tobacco tax collection
- It is an unknown whether a ban on flavored tobacco/nicotine products will go into effect in 2023; if it does, the effects of this ban on tobacco tax revenue are unknown
- There have been new state and federal resources directed toward early childhood which have changed the landscape for how the Commission should consider their investments, such as the implementation of Transitional Kindergarten for all 4-year-olds in California, a monumental investment in young children by the State.

It is within this changing financial landscape that the Commission once again looks forward at its future impact it can make for children and families in Solano County.

Background

The overarching goal of the LTFP is to provide a guiding framework for financial decisions made by the First 5 Solano Commission in support of the Commission's Strategic Plan.

More specific goals include:

- Clarify and make explicit the sources and uses of funding.
- Establish a strategic and predictable rate of annual grant spending.

- Develop future-year projections for expectation and use of Commission resources that can be updated annually based on actual financial data.
- Provide a systematic approach to financial decisions that incorporate an understanding of both short- and long-term implications for each decision.
- Support sustainability work to address the decline of Proposition 10 tobacco tax.

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.

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 financial model and determine any changes that are warranted. 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 outlines 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 the LTFP 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

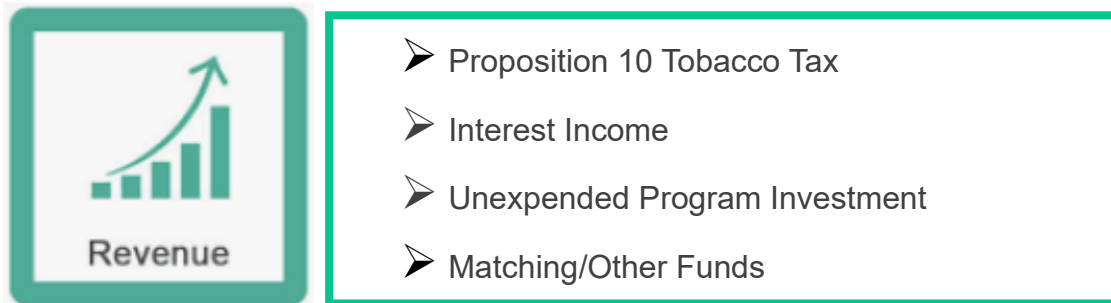
First 5 Solano’s financial status at the close of FY2021/22 is as follows:

- Proposition 10 revenues are \$3.4 million with a 1.7% annual rate of decline.
- The FY2022/23 budget is \$4.7 million in revenue and program/admin expenses
- Commission’s reserves are at approximately \$13.5 million. Of this amount:
 - \$2.1 million is obligated to the Fairfield First 5 Center.
 - \$1.63 million is obligated to the Vallejo Early Learning Center.

II. Financial Assumptions

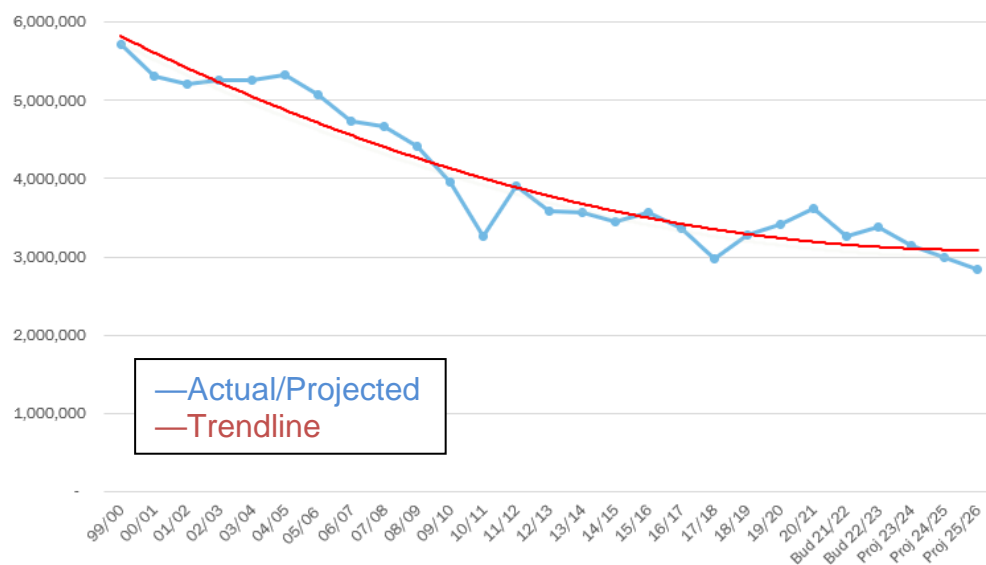
The Commission’s LTFP is grounded in financial assumptions which are made to provide a level of stability of expenditure and services in the community for young children. These assumptions include definitions and financial forecasting and have evolved over time to consider the current financial landscape.

Financial assumptions are categorized below by revenue, expenditure, and reserves.



1. **Proposition 10 Tobacco Tax** – Proposition 10 revenues are the taxes on cigarettes and Other Tobacco Products (OTPs) that are collected at the state level and distributed to all 58 counties based on birth rate. Since the last LTFP, there have been several changes in the Proposition 10 revenues:
 - a. The actual rate of decline of proposition 10 tobacco tax has begun to level off slightly, with the rate of revenue actually increasing from FY2017/18 through FY2020/21. The California Department of Tax and Fee Administration (CDTFA) projects the rate of decline to be about 1.7% annually for the next ten years; approximately half of the previous estimated rate of decline.

Proposition 10 Tobacco Tax Revenue over time



- b. In 2016, an additional \$2 tax per pack of cigarettes was enacted for the California Healthcare, Research, and Prevention Fund (Proposition 56). This led to a decrease in Proposition 10 funds for First 5s due to fewer people smoking, but there is a clause in the proposition providing backfill to First 5s so there is no net revenue loss.
- c. In 2017, the definition of Other Tobacco Projects (OTPs) which are taxed was expanded to include electronic smoking devices. As all OTPs only account for approximately 11% of Tobacco Tax Revenue, this provided a relatively small increase to the tax revenue collected.
- d. SB 395 went into effect July 2022 which provided a new tax on electronic cigarettes at a rate of 12.5% of the purchase price; 12% of the funds collected will be going to First 5s; there were no projections available to measure the effects of this change on tobacco tax collection
- e. In 2020, the state passed SB 793 which bans the sale of flavored tobacco products and would have the effect of decreasing the overall sales of and taxes on tobacco products. The law was postponed pending the outcome of a referendum on the November 2022 ballot that would repeal its provisions. The original State level estimates showed the decrease in First 5 Solano's Proposition 10 revenue would be approximately \$600,000 annually. However, the state estimates were characterized by another analysis as very steep. First 5's experience has been that generally the CDTFA is conservative in their revenue estimations.

Historically, the financial planning model in the Commission's LTFP uses state-level projections provided by the CDTFA for Proposition 10 revenues. As the First 5 Solano Commission needed to make decisions regarding their ongoing level of spending prior to the outcome of the November 2022 ballot measure, the Commission provided direction to budget for the average between the high and low County-level estimates (high estimate-if no flavor ban takes place; low estimate-if the favor ban gets implemented).

Based on these assumptions, the average annual Proposition 10 over the next 5 years (FY2023/24-FY2027/28) is estimated at \$2,930,000. This will be adjusted in the planning model as the results of the referendum are known.

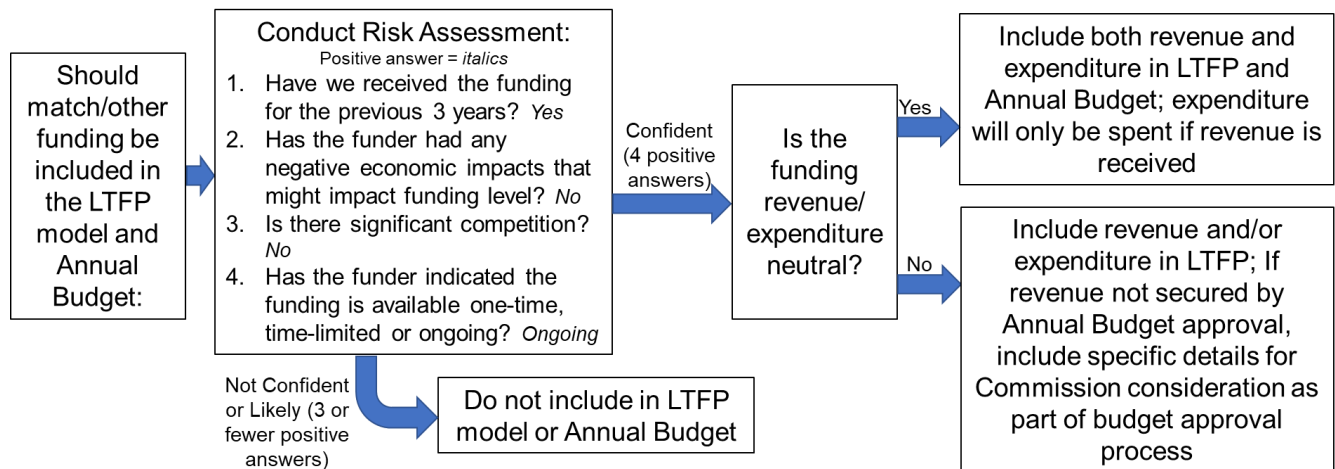
2. **Rate of interest earnings** – As an Agency of the County, the Commission's funds are managed by the Solano County Treasurer's Office and invested in the County Investment Pool following the Solano County Investment Policy. Interest rates have varied over the last 5 year period from a high of 1.83% to a low of 0.29% for an average of 1.03%. For this LTFP, interest is estimated to generate \$125,000 annually, or approximately a 1% rate of return on the Commissions Trust Fund.
3. **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 past LTFP model included an estimated 5% in unexpended program investment due to under-spending in the annual budget.

Analysis of the last 4 years showed actual underspending varied between 16%-31% with an average of 22%. Based on this information, this LTFP budgets for 15%

underspending; this means that *budgeted* expenditure at approximately \$640,000 more than anticipated revenue with the goal that *actual* expenditure comes in closer to *actual* revenue.

4. **Matching/Other funds** – Matching funds or other funding, such as grants, may be secured via multi-year contracts, year over year on an annual basis, or one-time. Previous long-term financial plans only included funding from sources other than Proposition 10 if they were fully secured (e.g. in contract). However, in the last 5 years, the Commission has done a significant amount of work to raise its profile and secured other resources resulting in an average of \$2 million secured annually in the First 5 Solano budget for the last 4 years. This triggered a reevaluation of how matching/other funds are considered in the Commission’s LTFP.

Based on the increase in matching/other funds, matching/other funds will be considered for inclusion in the LTFP based upon a Risk Assessment as detailed below:



Utilizing the Risk Assessment and flow chart, the following funding sources are included in the Commission’s LTFP:

- **Mental Health Services Act (MHSA):** Since 2008, First 5 Solano has received \$600,000 annually in matching funds from MHSA Prevention and Early Intervention for early childhood mental health prevention and early intervention services. Most recently, this has been used to partially fund developmental screenings, Triple P Parent Education, and the Help Me Grow Solano resource and referral program. The MHSA funds meet all 4 questions in the Risk Assessment giving it a rating of “Confident” and the funding is revenue/expenditure neutral as the revenue is only received if there is a corresponding qualifying expenditure.
- **Kaiser Permanente:** First 5 Solano has received between \$25,000-\$40,000 annually to fund services at the Vallejo First 5 Center. While the grant does require an annual application, it is by invitation only, so there is not significant competition meeting the criteria in the Risk Assessment. The funding is also revenue/expenditure neutral as it is used to fund services at the First 5 Center. \$25,000 is included in the Commission’s LTFP.

- Yocha Dehe Wintun Nation: Since 2020, Yocha Dehe Wintun Nation has provided \$300,000 annually to support the Vallejo First 5 Center. Based on the Risk Assessment and flow chart, these funds are included in the Commission's LTFP.
- County General Fund: First 5 Solano has historically provided contract management services to the Solano County Board of Supervisors for contracts related to the Community Investment Fund. The county provides \$65,000 in reimbursement for staffing related to the management of these contracts. As this funding is expected to be ongoing and meets the criteria in the Risk Assessment and flow chart, it is included in the Commission's LTFP.

The revenue from these four funding sources totals \$990,000. Other funds sources which have been received which were evaluated but did not meet the criteria in the flow chart included:

- First 5 California grants: Over the past funding cycle, First 5 Solano has received multiple grants from First 5 California including for IMPACT quality early learning and Home Visiting Coordination. First 5 California has not announced its funding strategy for grants beyond FY2022/23 and therefore these are not included. Should First 5 Solano secure funding and a contract with First 5 California via a Request for Applications, this will be included in LTFP model updates as appropriate.
- Public and private project-based one-time grants: Over the past 5 years, First 5 Solano has been successful in obtaining one-time grants or funding from both public sources, such as the state budget, the City of Vallejo, or private sources, such as foundations, for projects such as the renovations at the Vallejo First 5 Center, the launch of the Fairfield First 5 Center, and the renovations of the Vallejo Early Learning Center. As these grants have been one-time in nature, they are not included in the Commission's LTFP.

In addition, the Commission has outlined principles for seeking other funding. There are benefits and drawbacks for seeking various sources which should be considered and general principles with which First 5 Solano will evaluate other funding sources are:

- Where possible, connect nonprofit and community partners directly to funding opportunities and funding relationships and assist them as needed to be competitive and access resources
- Evaluate return on investment, especially for smaller funding opportunities
- Do not compete in opportunities in which other community partners are competing, unless there are multiple awards available
- Focus on opportunities which bring in additional funding to Solano County or to the early childhood system (making Solano's "pie" bigger)
- Assist early childhood system by providing in-kind coordination, backbone support, and local match resources, where applicable.



- Administration
- Program
- Evaluation

1. **Administration:** Administrative costs are characterized following the Commission’s Administrative Cost Policy and include salary, benefits, services, and supplies associated with supporting the Commission and general operations. Per the Commission’s Administrative Cost Policy, Administrative costs can be no more than 15% of the Commission’s overall budget. For this LTFP, Administrative costs are calculated at an average of \$460,000 annually.
2. **Program:** Contracted/professional services expenses by priority area as allocated in the Commission’s 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, Community Responsive Minigrants, and Systems Change. Program expenditures are the vast majority of the Commission’s budget and are calculated at an average of \$4,105,000 annually.
3. **Evaluation/Data Collection:** Evaluation expenses are related to data collection and evaluation of the Commission’s investments and are calculated at \$120,000 annually.



- Reserves

Reserves – The Commission holds a Reserve account with the Solano County Treasury. The Reserve account holds the balance of unspent funds from prior years.

The Commission receives revenues and makes expenditures from its annual budget throughout the Fiscal Year. Annual expenditure is first reimbursed by applying the current year Proposition 10 revenue and other current revenue, such as interest, matching funds, and grants. At the close of the Fiscal Year, if there is revenue that is not spent during the year, that amount is added to the Reserve, increasing the next year’s beginning Reserve balance. If expenditure is more than revenue received in a Fiscal Year that amount is withdrawn from the Reserve, decreasing next year’s beginning Reserve Balance.

These amounts are further illustrated below for the period of FY2018/19-FY2021/22:

	Actual FY2018/19	Actual FY2019/20	Actual FY2020/21	Actual FY2021/22
Reserve (Beginning)	8,353,676	9,751,039	9,721,402	10,795,044
Total Revenue	4,876,545	5,401,853	5,301,056	6,810,216
Total Expenditure	3,479,182	5,431,490	4,227,414	4,042,020
Net Increase/Decrease	1,397,363	(29,637)	1,073,642	2,768,196
Reserve (Ending)	9,751,039	9,721,402	10,795,044	13,563,240

First 5 Solano had been intentionally spending its Reserve until 2012 when the Commission became concerned that First 5 Solano would no longer have a reserve if spending continued at that level. The Commission worked over the 2012 funding cycle to bring revenues in line with expenditures. Since 2018, the Commission has no longer been budgeting for a draw on reserve to meet its obligations. In addition, as noted above, Proposition 10 tobacco tax has not declined as rapidly as initially projected and the Commission has been successful in bringing in additional revenue, which has led to the Commission adding to its reserve over the last 5-year period.

This increase in Reserve balance led the Commission to implement a Reserve Policy in which the Commission aims to maintain a Reserve balance between \$5 million and \$8 million and outlines the actions the Commission will take should the Reserve balance go above or below this amount.

III. Framework for Investment

First 5 Solano utilizes the projections from the LTFP to identify a multi-year stable level of expenditure through its Program Investment Plan. This allows the Commission to allocate funding to programs over a multi-year time period giving stakeholders a predictable level of program investment and stability in services in the community.

To identify the funds available for programs to support implementation of the Commission’s Strategic Plan, based on the assumptions described above, the total anticipated revenue over the next 5 years is \$4,685,000. This is broken down by revenue source in the following table:

Revenue Source	Average Annual Projected Amount
Proposition 10	2,930,000
Interest	125,000
Other Funding (MHSA, Kaiser, Yocha Dehe, General Fund)	990,000
Underspending	640,000
Total Revenue	4,685,000

Based on the required expenditure categories, the Commission’s multi-year expenditure plan is as follows:

Expenditure Category	Average Annual Projected Amount
Evaluation	120,000
Administration	460,000
Program	4,105,000
Total Expenditure	4,685,000

The \$4,105,000 within the Program expenditure is further broken down into multiple categories as identified in the table below:

Program Expenditure	Description	Average Annual Projected Amount
Program Staffing and Operations	Internal First 5 Solano staff and supplies to operate programs, such as program planning, procurement, contract monitoring, etc.	820,000
Priorities 1-3	Programs delivered via community partners to support the Commission’s Strategic Plan Areas 1-3	2,565,000
Priority 4: Systems Change	Internal First 5 Solano staff and program expenses directly attributable to the Commission’s Systems Change Priority Area	600,000
Community Engagement	Internal First 5 Solano expenses related to community engagement, such Community Responsive Minigrants, the community information calendar, events, etc.	120,000
Total Program Expenditure		4,105,000

Taking into account both revenue and expenditure, as well as First 5 Solano or other matching funds which generally have restrictions on how they can be utilized, the Commission’s Revenue and Expenditure Projection for the next 5 year period is identified in the table below:

5-Year Revenue and Expenditure Projections			
Revenue Category	First 5 Solano Funds	Other Funds	Average Annual Projected Amount
Proposition 10	2,930,000		2,930,000
Interest	125,000		125,000
Other Funding (MHSA, Kaiser, Yocha Dehe, General Fund)		990,000	990,000
Underspending	640,000		640,000
Total Revenue	3,695,000	990,000	4,685,000
Expenditure Category	First 5 Solano Funds	Other Funds	Average Annual Projected Amount
Evaluation/Data Collection	120,000		120,000
Administration	460,000		460,000
Program Staffing and Operations	755,000	65,000	820,000
Priorities 1-3	1,640,000	925,000	2,565,000
Priority 4: Systems Change	600,000		600,000
Community Engagement	120,000		120,000
Total Expenditure	3,695,000	990,000	4,685,000
Change in Fund Balance	0	0	0

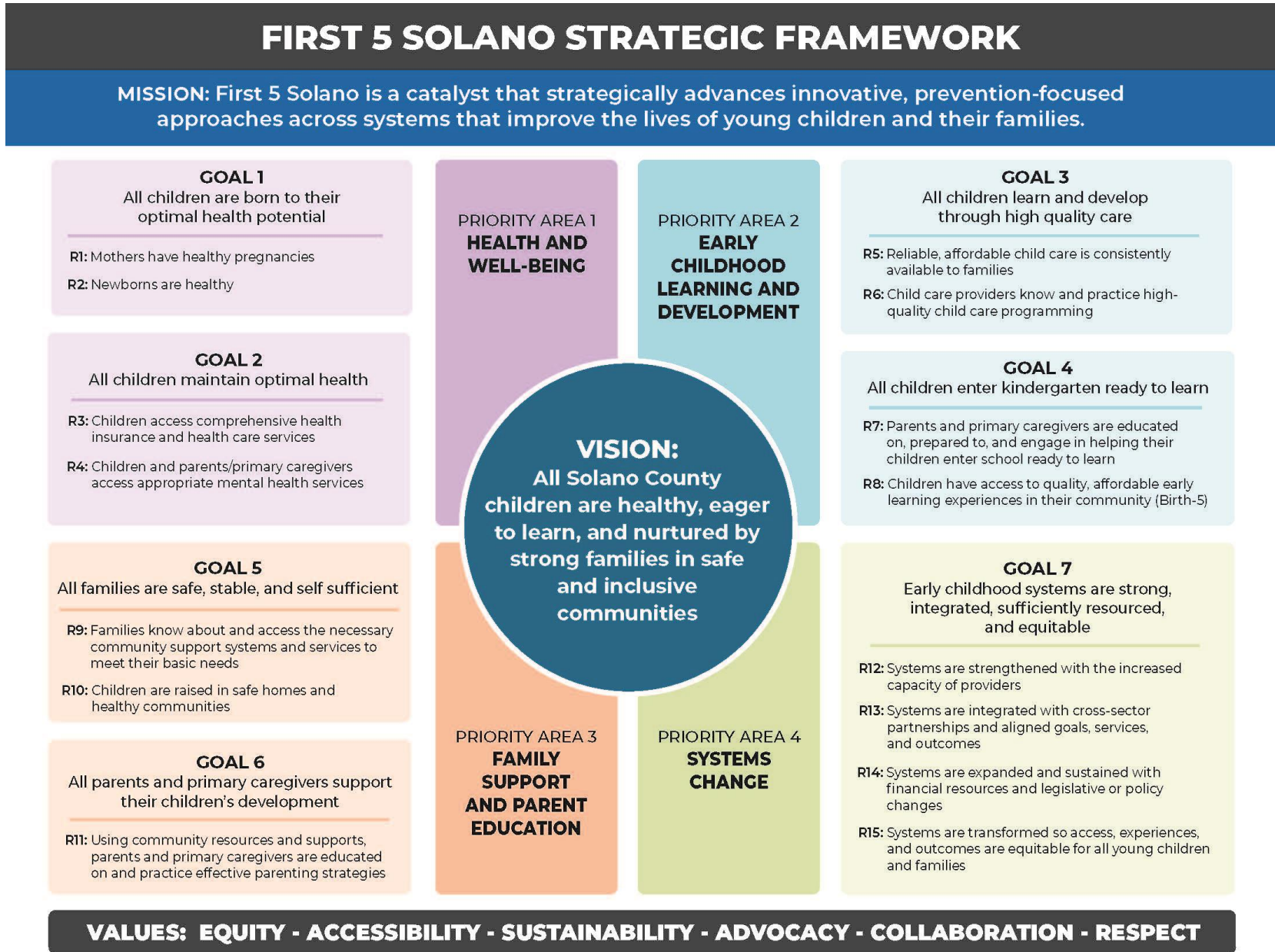
As past practice with the LTFP, the 2023 LTFP funding model utilizes the FY2023/24 level of spending with a stable level of funding up to FY2027/28 and projects out to FY2032/33. (See Appendix C: Financial Model for more detail.) However, if the Commission makes future financial decisions or actuals come in significantly different than projections, this would change the LTFP model and the financial outlook of the Commission.

APPENDIX A: Interrelation of Planning Tools

	Strategic Plan & Systems Change Action Plan	Long Term Financial Plan	Multi-Year Program Investment Plan	Annual Budget
Purpose	Sets vision, mission, values, priority areas, goals, and results	Provides long-term policies and projections for funding priorities	Communicates how funds will be allocated toward strategies that contribute to strategic goals and results	Translates vision into action through detailed spending plan
Key Functions	<ul style="list-style-type: none"> – Describes vision and role of First 5 Solano in achieving that vision – Outlines values First 5 Solano will adhere to in its work – Sets strategic goals and results within priority areas – Offers sample strategies to achieve the goals and results 	<ul style="list-style-type: none"> – Forecasts funding by type of revenue or expense – Quantifies amount of program investment each year – Establishes policies on use of financial resources 	<ul style="list-style-type: none"> – Reviews recent allocations against LTFP policies – Directs program investment funds to initiatives aligned with strategic priority areas, goals, and results – Provides a timeline for funding 	<ul style="list-style-type: none"> – Provides specific forecasts and expenditure plans by revenue and expense accounts
Scope	Broad	Broad	Moves from broad to specific	Specific
Planning Horizon	Generally 5 years	10 years	Generally aligns with Strategic Plan	One year
Does not...	Make specific spending commitments	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



APPENDIX C: Financial Model

CATEGORY			FY2023/24-FY2027/28					FY2028/29 & Beyond				
	Actual FY2021/22	Budgeted FY2022/23	Projection FY2023/24	Projection FY2024/25	Projection FY2025/26	Projection FY2026/27	Projection FY2027/28	Projection FY2028/29	Projection FY2029/30	Projection FY2030/31	Projection FY2031/32	Projection FY2032/33
REVENUE												
Fund Balance (Beginning)	10,795,044	13,563,240	12,685,440	12,905,312	12,973,147	12,966,550	12,872,251	12,692,881	12,466,750	12,194,653	11,877,372	11,515,675
Tobacco Tax - Prop 10	3,466,687	3,388,594	3,149,872	2,997,835	2,923,403	2,835,701	2,750,630	2,703,869	2,657,903	2,612,719	2,568,303	2,524,642
Interest	39,102	53,211	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
Matching Funds	762,841	1,003,519	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Other	2,541,586	70,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000
Unexpended funds returned to LTFP		283,849	640,000	640,000	640,000	640,000	640,000	640,000	640,000	640,000	640,000	640,000
TOTAL REVENUE	6,810,216	4,799,173	4,904,872	4,752,835	4,678,403	4,590,701	4,505,630	4,458,869	4,412,903	4,367,719	4,323,303	4,279,642
Total Available Resources	17,605,260	18,362,413	17,590,312	17,658,147	17,651,550	17,557,251	17,377,881	17,151,750	16,879,653	16,562,372	16,200,675	15,795,317
APPROPRIATIONS												
Program Priorities 1-4	3,339,719	4,999,522	3,985,000	3,985,000	3,985,000	3,985,000	3,985,000					
Salaries, Benefits, Services and Supplies	650,375	551,508	820,000	820,000	820,000	820,000	820,000					
Priority 1 - Health and Well Being	373,594	505,375										
Priority 2 - Early Care & Education	524,506	752,337	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000					
Priority 3 - Family Support & Parent Education	857,182	1,080,595										
Priority 4 - Systems Change	401,389	483,867	600,000	600,000	600,000	600,000	600,000					
Other	532,673	1,625,840	120,000	120,000	120,000	120,000	120,000					
Evaluation & Data Collection	151,450	110,400	120,000	120,000	120,000	120,000	120,000					
Total Program	3,491,169	5,109,922	4,225,000	4,225,000	4,225,000	4,225,000	4,225,000					
Administrative												
Total Administrative	550,851	567,051	460,000	460,000	460,000	460,000	460,000	-	-	-	-	-
Administrative Percentage	14%	10%	10%	10%	10%	10%	10%	0%	0%	0%	0%	0%
TOTAL APPROPRIATIONS	4,042,020	5,676,973	4,685,000	4,685,000	4,685,000	4,685,000	4,685,000	4,685,000	4,685,000	4,685,000	4,685,000	4,685,000
Net Increase/Decrease	2,768,196	(877,800)	219,872	67,835	(6,597)	(94,299)	(179,370)	(226,131)	(272,097)	(317,281)	(361,697)	(405,358)
Fund Balance (Ending)	13,563,240	12,685,440	12,905,312	12,973,147	12,966,550	12,872,251	12,692,881	12,466,750	12,194,653	11,877,372	11,515,675	11,110,317