



PUBLIC NOTICE OF MEETING OF THE

Arizona Early Childhood Development & Health Board

Pursuant to A.R.S. § 8-1194(A) and A.R.S. § 38-431.02, notice is hereby given to the members of the First Things First Arizona Early Childhood Development & Health Board and to the general public that the Board will hold a **Regular Meeting open to the public on Tuesday, August 19, 2014 beginning at 2:00 p.m. The meeting will be held at Phoenix Convention Center, 100 North 3rd Street, North Building, Rooms 126A and 126B, Phoenix, Arizona 85004.** Some members of the Board may elect to attend telephonically.

Pursuant to A.R.S. §§ 38-431.03(A)(1) & (A)(2), the Board may vote to go into Executive Session, which will not be open to the public, to discuss personnel items or records exempt from public inspection respectively, as indicated in the agenda. Pursuant to A.R.S. § 38-431.03(A)(3), the Board may vote to go into Executive Session to obtain legal advice on any item on the agenda.

The Board may hear items on the agenda out of order. The Board may discuss, consider, or take action regarding any item on the agenda. The Board may elect to solicit public comment on any of the agenda items.

The meeting agenda is as follows:

- 1. Call to Order** **Janice Decker, Chair**

- 2. Conflict of Interest** **Janice Decker, Chair**
Board Members will address potential conflicts of interest regarding items on this agenda.

- 3. Call to the Public** **Janice Decker, Chair**
This is the time for the public to comment. Members of the Board may not discuss or take legal action regarding matters that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01(H), action taken as a result of public comment on matters not on the agenda will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for further consideration and decision at a later date.

- 4. Consent Agenda** **Janice Decker, Chair**
All items on the Consent Agenda will be considered by a single motion with no discussion. Any individual item listed on the Consent Agenda will be removed from the Consent Agenda and discussed and voted on as a regular agenda item upon the request of any Board member.
 - A. Board Meeting Minutes July 22, 2014 **(Attachment #1)**
 - B. Statewide and Multi-Regional Agreements and Amendments **(Attachment #2)**
 - C. Regional Partnership Council New and Revised Strategies, Grants and Contract Agreement Amendments **(Attachment #3)**
 - D. Communications & Public Affairs Report **(Attachment #4)**
 - E. Tribal Affairs Report **(Attachment #5)**
 - F. Quality First Update **(Attachment #6)**
 - G. Technical Changes to Strategies and Allotments **(Attachment #7)**
 - H. FY15 Contract Renewal – Government Agreement **(Attachment #8)**
 - I. Annual Report **(Attachment #9)**

- 5. Report on 2014 Early Childhood Summit (Update and Discussion)** **Sam Leyvas, CEO**

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| <p>6. Discussion and Possible Approval of Regional Council Applicants (Possible Executive Session)
 <i>Pursuant to A.R.S. § 38-431.03(A)(1), the Board may vote to go into Executive Session, which will not be open to the general public, to discuss this matter.</i></p> | <p>Michelle Katona, Chief Regional Officer</p> |
| <p>7. Tobacco Tax Projections/Modeling and Sustainability Model Review (Update, Discussion and Possible Vote) (Attachment #10)</p> | <p>Josh Allen, CFO/COO</p> |
| <p>8. FY2014 Communications Year End Update (Update and Discussion)</p> | <p>Liz Barker Alvarez, VP Communications/Public Affairs</p> |
| <p>9. Additional FY15 Board Meeting – May 19, 2015 (Discussion and Possible Vote)</p> | <p>Janice Decker, Chair</p> |
| <p>10. Board Member Report/Update</p> | <p>Board Members</p> |
| <p>11. CEO Report/Update</p> | <p>Sam Leyvas, CEO</p> |
| <p>12. Future Agenda Item Requests</p> | <p>Board Members</p> |
| <p>13. Next Meeting – September 29-30 – Yuma, Arizona</p> | <p>Janice Decker, Chair</p> |
| <p>14. Adjourn</p> | |

A person with a disability may request a reasonable accommodation such as a sign language interpreter by contacting Melody Bozza, Board Administrator, Arizona Early Childhood Development and Health Board, 4000 North Central Avenue, Suite 800, Phoenix, Arizona 85012, telephone (602) 771-5026. Requests should be made as early as possible to allow time to arrange the accommodation.

Dated this 8th day of August 2014

ARIZONA EARLY CHILDHOOD DEVELOPMENT & HEALTH BOARD



Melody Bozza, Board Administrator



Arizona Early Childhood Development & Health Board

Draft Meeting Minutes

Call to Order

A Regular Meeting of the First Things First - Arizona Early Childhood Development and Health Board was held on Tuesday, July 22, 2014 at 9:00 a.m. The meeting was held at First Things First, 4000 North Central Avenue, Suite 800, Phoenix, Arizona 85012.

Chair Decker called the meeting to order at approximately 9:05 a.m.

Members Present:

Janice Decker, Dr. Pamela Powell, Vivian Saunders, and Steve Lynn

Members Present: (via phone)

Nadine Mathis Basha and Ruth Solomon

Ex-Officio Members Present:

Irene Burnton

Members Absent:

Cecil Patterson, Gayle Burns

Ex-Officio Members Absent:

Brad Willis and Amy Corriveau

Telephone Procedures

The Board Room telephone was used for members participating by telephone. Speakers physically present at the meeting spoke into microphones to ensure that members on the telephone could hear. Members on the telephone were identified when they spoke for the benefit of those physically present at the meeting.

Conflict of Interest

Chair Decker asked the Board members if there were conflicts of interest regarding items on this agenda. There were none at this time.

Call to the Public

There were no members of the public who requested to speak at this time.

Chair Decker noted that Children's Action Alliance submitted a letter regarding items 6 & 7 on the agenda. Copies of the letter were distributed to board members prior to the meeting.

Consent Agenda

A motion was made by Member Solomon to approve the matters on the Consent Agenda, seconded by Member Powell. Motion carried.

Discussion and Possible Approval of Regional Council Applicants

A motion was made by Member Lynn to approve the Regional Council Applicants that had been recommended for appointment, seconded by Member Saunders. Motion carried.

Fiscal Policy Direction and FY16 Allocations

Josh Allen, Chief Financial/Operations Officer, presented to the Board the recommendations from the Finance Advisory Committee:

- CEO Recommendation: Adopt the Finance Committee’s recommendation to allocate \$126.6 million in revenues to support Program spending beginning in FY16, and to keep this amount constant for successive years.

Mr. Allen stated that the Finance Committee recommends the Board accept the \$126.6 million to sustain the programs for a long term, projecting 9 – 15 years. The Finance Committee has received an updated financial report from ASU which will be presented to the Board at the August meeting regarding the tobacco tax collections.

Chair Decker commented that she is aware this item would be reviewed on an annual basis.

A motion was made by Member Lynn to accept the recommendation as presented, seconded by Member Saunders. Motion carried.

- CEO Recommendation: Adopt the Finance Committee’s recommendation that in FY16, total financing available to support regional allotments should be adjusted so that each region’s projected fund balance is part of that allotment level as opposed to being in addition to.

Mr. Allen reported that historically, the Board has not considered regional carry forward as part of the pool of dollars allotted for individual regions. Therefore, this allowed regional carry forward dollars to be available for spending above and beyond a region’s annual allocation. Regional carry forward fund balances are expected to be fully expended by FY17 with some exceptions. Mr. Allen stated the Finance Committee recommends that remaining regional carry forward balances be factored in as part of the available revenues available to meet targeted spending beginning in FY16.

A motion was made by Member Basha to accept the recommendation as presented, seconded by Member Powell. Motion carried.

- CEO Recommendation: Set a minimum regional allocation amount of \$100k.

Mr. Allen recommended to the board that regional allocations should not fall below \$100k regardless of population.

A motion was made by Member Solomon to accept the recommendation as presented, seconded by Member Saunders. Motion carried.

- CEO Recommendation: Continue the distribution of Discretionary dollars using the three-part methodology described above; with part one being modified if necessary to align with action the Board may take regarding setting a minimum allocation amount.

A motion to adopt with provision for modification was made by Member Basha, seconded by Member Lynn. Motion carried.

- CEO Recommendation: For population estimates required under FTF statute for FY16-18, utilize the same data as those used for the setting of the FY15 allocations – 2010 census data and the 2010 American Community Survey (ACS).

Mr. Allen indicated that continuing to utilize the same data source regarding population as has been used in previous years will provide consistency, stability and predictability.

A motion was made by Member Powell to accept the recommendation as presented, seconded by Member Lynn. Motion carried.

Policy & Program Committee Report and Recommendations

- CEO Recommendation: Adopt the policy recommendations and guidance as presented by the Policy and Program Committee.

Karen Woodhouse, Chief Program Officer presented the recommendations from the Program Committee in response to the request from the board regarding: Construction of Funding Plans, Quality First Model and Other Program Costs.

Ms. Woodhouse advised the three recommendations are as follows:

1. The First Things First Regional Councils construct strategic funding plans based on an examination of available data to determine local needs; prioritization of needs that also align with the Regional Council's identified School Readiness Indicators; and, selection and development of evidence-based or evidence-informed funded and non-funded approaches that reflect system building to address those needs.
2. First Things First separate Quality First improvement model costs from scholarship costs, provide no further guidance on number of regional scholarships funded, see no reduction to the number of providers and provide incentives to 3-5 star Quality First programs with First Things First staff to determine the exact amount of those incentives.
3. First Things First continue to identify approaches that are evidence-based or evidence-informed; realize possible and appropriate cost efficiencies; and, utilize data for continuous quality improvement of programs and strategies.

Ms. Woodhouse stated that the KDI (Kindergarten Development Inventory) tool would be ready for use in 2017. This will be helpful to determine how well prepared for Kindergarten children are after receiving care from 3-5 star programs.

A motion was made by Member Saunders to accept the recommendations as presented, seconded by Member Lynn. Motion carried.

Inter-Governmental Agreement (IGA) with Department of Economic Security

Sam Leyvas, Chief Executive Officer, provided an update on the IGA. Mr. Leyvas reviewed the purpose of the document and indicated an Inter-Governmental Agreement (IGA) between DES and First Things First would allow the transfer of CCDF Targeted Funds set aside for Infant & Toddler activities to be transferred to First Things First. Mr. Leyvas advised that FTF is in conversation with DES to ensure that proper procedure is taken and that the funds are allocated appropriately.

A motion was made by Member Lynn to accept the recommendation as presented, seconded by Member Powell. Motion carried.

Board Member Report/Update

Member Saunders informed the Board that the process had begun to find a Sr. Director, Tribal Affairs. A date for interviews has been chosen and she is impressed with the caliber of the applicants.

Member Solomon has been invited to attend the Arizona School Board Association Law Conference. She will provide an update regarding the conference.

Ms. Burnton stated that the 20th Annual Child Abuse Prevention Conference was held past week. It was a great conference that facilitated great discussion. Also, in regard to the MIECHV Grant, Vision for Home Visiting, ADHS will be working collaboratively with FTF to update the document. ADHS has recently hired a Native American Home Coordinator, whose role is to work on Home Visiting and other issues related to Maternal and Child Health.

Member Basha thanked the I.T. Team (Rick and Melinda) for their assistance in helping her connect to the meeting. She also thanked the Finance Committee for their continued work and gave a thank you to Paul Velaski for his work as he leaves for another position in California. Lastly, she gave a thank you to Kim Syra, the former Board Administrator, who has moved on from FTF.

CEO Report/Update

Sam Leyvas, Chief Executive Officer, provided the Board with an update of the Summit which will be held August 18th and 19th at the Phoenix Convention Center; currently registration is at 1100 participants. The fund raising goal for this year event has been met. Helios Foundation has offered to sponsor a luncheon with the keynote speaker, Sharon Lynn Kagan. More details to follow. There will also be a Chair & Vice Chair reception on Monday night.

A new public awareness campaign has started; please provide feedback. They will appear on television and in movie theaters.

New Regional Council Member Orientations have been occurring; they have been successful and informative.

The Sr. Director of Government Affairs position has been posted; we look forward to filling the position.

Liz Barker Alvarez has been promoted to Vice President, Communications & Public Affairs. A thank you to Liz for accepting the role.

Recognition of Outgoing Chair

Chair Decker presented Member Lynn with a plaque and gavel. Chair Decker thanked Member Lynn for his continued service and commitment to the children of Arizona. Member Lynn thanked the Board and FTF Staff for the recognition and applauded the staff for their commitment to serving young children.

Future Agenda Item Requests

There were no requests at this time.

Next Meeting

August 19, 2014 at the FTF Summit, Phoenix, Arizona

Adjourn

There being no further discussion, the meeting was adjourned at approximately 11:27 a.m.



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AGENDA ITEM: Statewide and Multi-Regional Agreements and Amendments

BACKGROUND: The attached document provides information on an amended agreement for the Health Families accreditation under the Home Visitation strategy.

RECOMMENDATION: The CEO recommends approval of the proposed agreement and funding level.



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August 2014

Program Strategies					
Funding Plan	Strategy Summary	Agreement Type	Prior Award	Amended Award	Difference
Statewide	Home Visitation (Healthy Families Accreditation) <ul style="list-style-type: none">Carry out all functions and responsibilities for the purpose of accreditation, evaluation, quality assurance, training, technical assistance and other core services as specified by the National Healthy Families America for Healthy Families programs in Arizona to carry out the model according to national standards.	Agreement Type: Interagency Service Agreement with the Arizona Department of Economic Security Contract Effective Date: July 1, 2014 – June 30, 2015	\$216,923.26	\$221,203.26	\$4,280.00



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AGENDA ITEM: Regional Council New and Revised Strategies and Government Agreements

BACKGROUND: The San Carlos Apache Regional Council is requesting approval of a government agreement for SFY15. A letter from the Regional Council Chair is included for your review and provides information on the request. A funding plan financial summary is also provided.

RECOMMENDATION: The CEO recommends approval of all the proposed agreement.



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Chair

Vernon Poncho

Vice Chair

Flora Talas

Members

Michelle Antonio
Mary Bendle
Teri Gallenstein
Louis Lorenzo
Nolita April Noline
Delphine Rodriguez
Elliott Talgo, Sr.

August 11, 2014

Janice Decker, Chair
First Things First Board
4000 North Central Avenue, Suite 800
Phoenix, Arizona 85012

RE: San Carlos Apache Regional Partnership Council Recommended Agreement for Family, Friend & Neighbor

Dear Chairwoman Decker,

The San Carlos Apache Regional Partnership Council is seeking your approval to enter into an agreement with The San Carlos Apache Tribe in the amount of \$54,000 for the Family, Friend & Neighbor strategy. This agreement recommendation is in response to the Family, Friend & Neighbor strategy approved by the Board as part of our SFY15 Regional Funding Plan.

The Family, Friend & Neighbor strategy to be implemented by the San Carlos Apache Tribe Apache Kid Child Care will continue to provide outreach and training for home based child care providers. The program has been implemented in the region for the last three years and the need continues to exist.

The total amount of funding to be awarded under this agreement for SFY15 is \$54,000 serving 10 home based providers. The initial funding period is August 1, 2014 through June 30, 2015 potential renewal of the agreement based on performance and continuation of the strategy by the Regional Council. The potential renewal periods are as follows:

- 1st renewal period: July 1, 2015– June 30, 2016
- 2nd renewal period: July 1, 2016– June 30, 2017

The San Carlos Apache Regional Partnership Council respectfully requests that the Arizona Early Childhood Development and Health Board approve the Regional Council's request. The Regional Council is confident that the proposed agreement is in the best interest of children and families in the San Carlos Apache Region and supports the Board approved priorities.

Thank you for your consideration.

Sincerely,

Vernon Poncho
San Carlos Apache Regional Partnership Council



Proposed Funding Plan Summary

FY 2015 - San Carlos Apache

Total Allocation:		\$1,782,302				
Strategy	Original Allotment	Current Allotment	Proposed New Allotment	Awarded Amount	New NON-RFGAs	Recalculated Unawarded
Child Care Health Consultation	\$23,760	\$23,760	-	\$22,403		\$1,357
Community Awareness	\$10,000	\$10,000	-	\$10,000		-
Community Outreach	\$15,000	\$15,000	-	\$15,000		-
Curriculum Development – Parent Education	\$47,000	\$47,000	-	\$46,750		\$250
Developmental and Sensory Screening	\$96,645	\$96,645	-	\$96,645		-
Family, Friends & Neighbors	\$54,000	\$54,000	-		\$54,000	-
Food Security	\$15,000	\$15,000	-	\$15,000		-
FTF Professional REWARD\$	\$47,000	\$47,000	-	\$45,900		\$1,100
Media	\$11,250	\$11,250	-	\$11,250		-
Native Language Preservation	\$75,000	\$75,000	-	\$75,000		-
Nutrition/Obesity/Physical Activity	\$150,000	\$150,000	-	\$150,000		-
Parent Education Community-Based Training	\$115,000	\$115,000	-			\$115,000
Parent Outreach and Awareness	\$70,000	\$70,000	-	\$70,000		-
Quality First	-	-	-			-
Quality First Academy	\$7,520	\$7,520	-	\$7,520		-
Quality First Child Care Health Consultation Warmline	\$376	\$376	-	\$270		\$107
Quality First Coaching & Incentives	\$110,154	\$110,154	-	\$110,153		\$1
Quality First Inclusion Warmline	\$1,680	\$1,680	-			\$1,680
Quality First Mental Health Consultation Warmline	\$1,728	\$1,728	-			\$1,728
Quality First Warmline Triage	\$608	\$608	-			\$608
Scholarships TEACH	-	-	-			-
Service Coordination	\$15,000	\$15,000	-	\$15,000		-
Statewide Evaluation	\$44,053	\$44,053	-	\$44,053		\$0
Total Allotment:	\$910,774	\$910,774	-	\$734,944	\$54,000	\$121,830
Total Unallotted:		\$871,528	-			



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AGENDA ITEM: Communications and Public Affairs Update

BACKGROUND: The attached report provides information and updates on progress related to Communications and Public Affairs. The report is segmented into several focus areas, including:

- Community Outreach
- Communications
- Government Affairs
- Tribal Affairs (see report under separate cover)

RECOMMENDATION: For informational purposes only.

Fiscal 2014 Success – Year In Review

In fiscal year 2014, the Communications and Public Affairs Division worked diligently to ensure that messages about the importance of early childhood development and health were heard in communities statewide. With support from regional councils – and through the efforts of both statewide and regional staff – we were able to achieve the following milestones:

A 74% increase in media stories on early childhood, First Things First and grantees. These **641 stories** were the result of several factors including: a great deal of work by our Community Outreach staff; a greater focus on new media (such as blogs, podcasts and user generated sites); and, better tools that allow us to capture more of our successes.

A 52% increase in community outreach activities statewide, including a **193% increase in site tours** (29 tours for community leaders in FY13 to 85 tours in FY14) and a **257% increase in the number of individuals trained to speak about early childhood** (775 people trained in FY13 to 2,773 people trained in FY14). Additional details on our efforts to increase the engagement level of our Friends and Supporters are available beginning on Page 3 of this report.

A 154% increase in social media engagement through Facebook. The number of individuals who have joined FTF on Facebook rose from 21,274 to 54,240 by the end of FY2014. The number of individuals following us on **Twitter rose by almost 34%** in the past year, going from 888 to 1,188.

First Things First plans to complete its next poll on public awareness in Spring 2015, in order to ensure that those numbers reflect the successes noted above, as well as the impact of our latest creative campaign. We look forward to sharing the results of our efforts to ensure that more Arizonans understand the importance of getting young children Ready for School and Set for Life.

July Update

Earned media was a big focus in Communications and Public Affairs for the month of July, with more than 40 stories regarding early childhood, First Things First and our grantees appearing in media statewide. The vast majority of these were tied to our media pitch on preparing kindergarteners to enter school. Some highlights of those efforts included:

- In the Graham/Greenlee region, Community Outreach Coordinator Paulette LeBlanc parlayed the statewide release in to a **four-week series of articles** called Countdown to Kindergarten that ran in the area's two largest newspapers.
- In the Phoenix regions, Community Outreach Coordinator Susana Ibarra Johnson leveraged her relationship with a Spanish-language radio talk show host to have **an entire one-hour segment** devoted to back-to-school tips for families of kindergarteners.
- And, in the Coconino region, Community Outreach Coordinator Cynthia Pardo turned a colleague's win on a radio show in to a win for First Things First. When her colleague won a free lunch from a radio station, Cynthia seized the opportunity to talk about the importance of early childhood with the radio employee who delivered the meal. That employee, in turn, passed

along the information to the morning show producers, and Cynthia was asked to do a **30-minute interview** on getting new kindergartners ready for their big day.

In addition to these hits, Chief Executive Officer Sam Leyvas submitted two columns to *The Arizona Republic* that likely ran in 5-8 Community sections each. Those columns included tips on travelling with infants, toddlers and preschoolers and suggestions for families on easing kindergarteners' first day jitters.

Our **social media** presence also continued to grow; First Things First added 546 friends in July alone, bringing our total to almost 55,000. In addition, the number of individuals following us on Twitter has grown to almost 1,200.

Tribal Affairs

See full report under separate cover.

Community Outreach

In FY14, the team continued to build awareness about the importance of early childhood throughout Arizona with an additional focus on community engagement – moving awareness to action. This includes ensuring that Friends, Supporters and Champions are recognized for their efforts and have the tools and support they need to take action on behalf of young children.

For example, data analysis from the fourth quarter showed that the team exceeded the benchmark of new Friend recruitment by nearly 7%, recruiting 1,025 Friends in the final quarter compared to the benchmark of 960.

Additional impact is seen in the movement from the Friend level to the Supporter and Champion levels. The team met the benchmark of moving 240 Friends to Supporters for the final quarter, ending the year with a total of 1,120 Supporters. And the

FY14 Community Outreach Activities			
Outreach Activity Type	Total FY13	Total FY14	% increase
Site Tours	29	85	193% increase
Speaker's Series Trainings	50 (775 total trainees)	210 (2,773 total trainees)	257% increased # of trainees
Presentations	385	389	Maintained
One-on-Ones	362	594	64% increase
Success Stories Collected	56	167	198% increase
Networking Meetings	249	458	83% increase
Community Events	262	416	58% increase
Media	333	429	28% increase
Other Outreach	296	242	Maintained
Overall Total Activities	1689	2561	52% increase

team far exceeded the benchmark for moving Supporters into the highest-tier Champion level in the final quarter, by adding a total of 84 new Champions and ending the year with a total of 375 Champions. This is impressive, since cultivating relationships to move Friends and Supporters to this top tier typically takes extended time and multiple interactions.

The real impact of these accomplishments is seen when one considers that each of those Friends, Supporters or Champions took some action or series of actions on behalf of young children. Examples of specific calls-to-action for each level can be found in the FTF Strategic Communications Plan, but examples include referring FTF to share information with another organization, attending a site tour of a FTF-funded program or helping to host a FTF information table at a community event.

In FY15, as a focus on engagement continues, Community Outreach plans to place greater emphasis on enumerating and reporting the actions taken by Friends, Supporters and Champions in order to show how impact beyond the activities of our Community Outreach staff.

STAFF CONTACTS:

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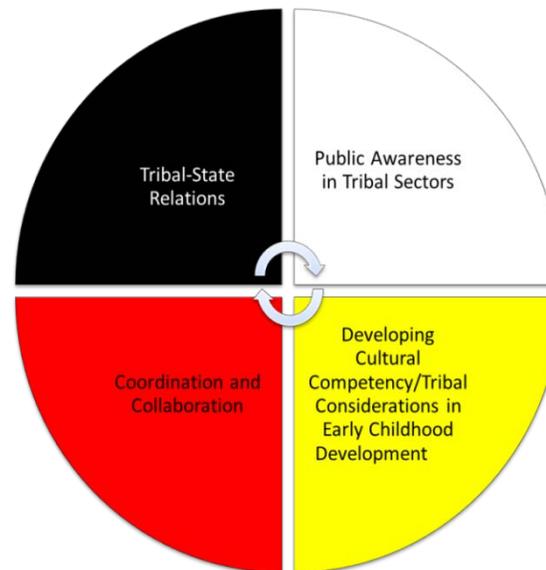
AGENDA ITEM: Tribal Affairs Update

BACKGROUND: The attached table provides information on the activities related to tribal affairs for the months of June through July 2014. The first column lists two categories that indicate the overall content areas that summarize tribal affairs for this reporting period. These areas include:

- Tribal-State Relations
- Tribal Considerations in Early Childhood Development

The second column provides a brief summary of the activities and accomplishments.

RECOMMENDATION: For informational purposes only.



TRIBAL AFFAIRS STATUS REPORT

June-July 2014

<i>Project Type</i>	<i>Description</i>
<i>Tribal-State Relations</i>	<p>In late June, the Colorado River Indian Tribes Tribal Council approved an agreement that allows First Things First to collect School Readiness Indicator data on young children and families in the region.</p> <p>In addition, First Things First Chief Executive Officer Sam Leyvas presented the School Readiness Indicators to the Pascua Yaqui Tribe Education Oversight Committee. The purpose of this meeting was to inform the committee about the School Readiness Indicators and seek guidance and direction on the Pascua Yaqui Tribe's approval process. Several Pascua Yaqui Tribal Council Members were in attendance, including: Robert Valencia (Tribal Secretary), John Escalante, Raymond Buelna, Rosa Soto Alvarez and Cruzita Armenta.</p> <p>Tribal Affairs will continue to support regional offices in their efforts to obtain data collection agreements on the School Readiness Indicators.</p>
<i>Tribal Considerations in Early Childhood Development</i>	<p>On July 30, interviews were held for the Senior Director of Tribal Affairs position. Several outstanding candidates emerged. Final selection is expected by the end of August.</p>

The following projects are currently in progress by Tribal Affairs:

- Tribal Affairs is in the process of scheduling a meeting with the Chairman of the Tohono O'odham Nation related to tribal approval for data collection for the purposes of the School Readiness Indicators.



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AGENDA ITEM: Quality First Update on Estimated Ratings for Enrolled Providers, Analysis of Ratings Progress, Providers on the Wait List, and Age Ranges of Enrolled Children

BACKGROUND: The attached documents provide an updated report of Quality First enrollment data and estimated quality ratings on currently enrolled providers. Results of in-depth analysis of Quality First Rating data shows that from the previous to current assessment point, QF providers on average are making significant movement in their quality ratings in the right direction. Almost 50,000 children birth to 5 years are enrolled in Quality First programs and current data shows 41% of providers at 3 – 5 Stars.

All Quality First Ratings are based on three measures: (1) ERS- Environmental Rating Scales (ECERS, ITERS, and FCCERS); (2) Classroom Assessment Scoring System – CLASS (Domains: Emotional Support, Instructional Support, and Classroom Organization); and (3) QF Point Scale that measures Staff Qualifications, Administrative Practices, and Curriculum and Child Assessment. The table below includes providers whose ratings are now public, as well as providers who are in the process of completing one or more of the three assessments. Ratings for providers with an incomplete assessment process are considered as *preliminary Quality First Ratings*.

May 2014	July 2014	% Change
Providers: 910	Providers: 908	-0.2%
Children: 54,602	Children: 49,256*	-9.8%
Waitlist: 342	Waitlist: 360	+5.3%
Ratings:	Ratings:	
1 Star: 12	1 Star: 11	-8.3%
2 Star: 549	2 Star: 523	-4.7%
3 Star: 231	3 Star: 247	+6.9%
4 Star: 95	4 Star: 104	+9.5%
5 Star: 23	5 Star: 23	0.0%

*summer enrollment is lower than at other times during the year

RECOMMENDATION: The CEO presents this update for information only.

Quality First Eligible Applicant and Enrolled Participant Data Report

Regional Partnership Council	Wait List	Full Participation	Rating Only	Infants*	Toddlers*	2 Yr Olds*	3Yr Olds*	4 Yr Olds*	5 Yr Olds*	Total Enrollment 0 - 5*
Cochise	4	33		60	101	149	261	313	124	1008
Center	2	21		54	84	126	239	299	117	919
Home	2	12		6	17	23	22	14	7	89
Coconino	9	22		42	66	90	127	164	62	551
Center	8	18		40	61	85	116	160	59	521
Home	1	4		2	5	5	11	4	3	30
Cocopah Tribe	1		1				4	9	7	20
Center	1		1				4	9	7	20
Home										
Colorado River Indian Tribes		2		3	6	6	103	93	4	215
Center		2		3	6	6	103	93	4	215
Home										
East Maricopa	65	58	13	439	691	962	1243	1714	426	5475
Center	64	53	13	438	678	950	1233	1705	424	5428
Home	1	5		1	13	12	10	9	2	47
Gila		9		7	20	17	86	139	31	300
Center		6		4	20	11	84	135	26	280
Home		3		3		6	2	4	5	20
Gila River Indian Community		3		10	10	20	51	37	8	136
Center		3		10	10	20	51	37	8	136
Home										
Graham/Greenlee		8		8	10	28	93	141	8	288
Center		5		6	6	26	88	138	7	271
Home		3		2	4	2	5	3	1	17
La Paz/Mohave	9	18		21	53	104	255	378	137	948
Center	9	17		20	50	102	254	376	136	938
Home		1		1	3	2	1	2	1	10
Navajo Nation		7		5	9	8	104	125	38	289
Center		7		5	9	8	104	125	38	289
Home										
Navajo/Apache	5	4		1	15	33	33	31	6	119
Center	4	3			13	31	32	28	5	109
Home	1	1		1	2	2	1	3	1	10
Northwest Maricopa	29	62	19	382	637	884	1244	1879	695	5721
Center	28	56	19	375	628	876	1233	1872	693	5677

Quality First Eligible Applicant and Enrolled Participant Data Report

Home	1	6		7	9	8	11	7	2	44
Pascua Yaqui Tribe		1					2	2		4
Center										
Home		1					2	2		4
Phoenix North	17	132		693	1122	1558	1910	2445	971	8699
Center	16	122		683	1112	1547	1898	2420	963	8623
Home	1	10		10	10	11	12	25	8	76
Phoenix South	7	113		323	511	819	1393	2633	696	6375
Center	6	86		296	452	770	1349	2602	683	6152
Home	1	27		27	59	49	44	31	13	223
Pima North	67	107	7	466	728	1064	1385	1426	760	5829
Center	49	84	7	443	698	1034	1360	1402	749	5686
Home	18	23		23	30	30	25	24	11	143
Pima South	18	69		81	149	269	542	691	274	2006
Center	9	30		50	92	205	490	664	256	1757
Home	9	39		31	57	64	52	27	18	249
Pinal	1	35		90	142	198	323	456	250	1459
Center	1	31		89	137	194	317	453	247	1437
Home		4		1	5	4	6	3	3	22
San Carlos Apache		7		11	11	9	75	206		312
Center		6		9	11	9	75	205		309
Home		1		2				1		3
Santa Cruz	14	7		2	3	1	31	95	2	134
Center	4	3					23	90		113
Home	10	4		2	3	1	8	5	2	21
Southeast Maricopa	70	55	9	309	511	728	1028	1434	403	4413
Center	68	45	9	303	498	702	1006	1398	379	4286
Home	2	10		6	13	26	22	36	24	127
Southwest Maricopa	23	24		98	204	311	395	680	291	1979
Center	18	20		95	197	306	388	676	287	1949
Home	5	4		3	7	5	7	4	4	30
Tohono O'odham Nation		6		2	7	19	53	83	30	194
Center		6		2	7	19	53	83	30	194
Home										
White Mountain Apache Tribe	3	2		13	23	15	18	197		266
Center	3	2		13	23	15	18	197		266
Home										

Quality First Eligible Applicant and Enrolled Participant Data Report

Yavapai	5	36		64	166	199	306	424	174	1333
Center	4	32		62	159	194	291	413	172	1291
Home	1	4		2	7	5	15	11	2	42
Yuma	12	32	7	49	101	111	257	436	229	1183
Center	1	14	7	37	80	93	232	431	223	1096
Home	11	18		12	21	18	25	5	6	87
Statewide Total	360	852	56	3179	5296	7602	11322	16231	5626	49256

*Enrollment data is self reported by Child Care provider.

Quality First Preliminary Star Level for Enrolled Providers by Regional Partnership Council

Regional Partnership Council	1 Star	2 Star	3 Star	4 Star	5 Star	Total
Cochise		20	7	6		33
Coconino		12	8	2		22
Cocopah Tribe						
Colorado River Indian Tribes						
East Maricopa		38	17	14	2	71
Gila		4	4		1	9
Gila River Indian Community						
Graham/Greenlee	1	5	1	1		8
La Paz/Mohave		8	7	2	1	18
Navajo Nation		6		1		7
Navajo/Apache						
Northwest Maricopa	1	31	30	13	6	81
Pascua Yaqui Tribe						
Phoenix North		90	34	6	2	132
Phoenix South	6	70	22	12	3	113
Pima North		68	26	14	6	114
Pima South	1	34	25	8	1	69
Pinal		24	11			35
San Carlos Apache		7				7
Santa Cruz		4	3			7
Southeast Maricopa		38	18	8		64
Southwest Maricopa		14	8	2		24
Tohono O'odham Nation		4	2			6
White Mountain Apache Tribe						
Yavapai	1	26	5	4		36
Yuma	1	10	17	10	1	39
Total	11	523	247	104	23	908

Note: Regional partner councils' provider ratings are suppressed for confidentiality reasons, as the total providers enrolled within this regional area is less than 5.



FIRST THINGS FIRST

AGENDA ITEM: Technical Adjustment to FY15 Allotments/Awards

BACKGROUND: According to the Guidance adopted by the Board of First Things First in its September 2010 meeting, staff has completed technical adjustments to funding plans for clerical errors and nomenclature adjustments to allotments and contract amounts approved by the CFO/COO.

CEO RECOMMENDATION(S):

The CEO recommends the approval of technical adjustments to the FY15 allotments/awards as presented.

DETAIL:

Clerical Error Adjustments -

- None to report at this time.

Nomenclature Adjustments –

- None to report at this time.

Award/Allotment Adjustments –

Amendments

FTF-RC008-13-0376-03-Y3 (Northwest Maricopa) - Sun City Area Interfaith Services, Inc., dba Benevilla

The contract was amended to reflect the change in the manner of financing, going from reimbursement-based to deliverable-based payments. No change in funding amounts and all other terms and conditions remain the same.

FTF-RC020-13-0387-01-Y3 (Santa Cruz) - University of Arizona Santa Cruz Cooperative Extension

The contract was amended to reflect the change in the Terms and Conditions - Reimbursement/Payment, to state that if similar services were provided by the contractor prior to the start date of this renewal agreement, those services would be compensated under the FY15 agreement. No change in funding amounts and all other Terms and Conditions remain the same.

Rollovers/No-Cost Extensions

FY14 awards originally approved by the Board under the following strategies will utilize unspent funds to complete the remainder of the scope of work under a new “extended” no-cost contract period based on the recommendation of the Regional Councils and approval of the Executive Director. The allotments in the FY15 regional funding plans will be adjusted accordingly to cover the unspent amount:

Navajo Nation Regional Partnership Council:

FY15 Allotment for the Expansion, Start-Up, and/or Capital Expense Strategy:	\$70,000
FY15 Award: ISA-RC001-14-0685-01-Y2, Arizona Department of Education	\$70,000

Pinal Regional Partnership Council:

FY15 Allotment for Needs and Assets Strategy:	\$7,000
FY15 Award (PSC for LeCroy & Milligan contract)	\$7,000



FIRST THINGS FIRST

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AGENDA ITEM: FY 2015 Renewals

BACKGROUND: At the June 2014 Board meeting, the Board approved 217 FY14 contracts for renewal, totaling \$89.3 million in FY15 awards. A handful of contracts eligible for renewal were not brought forward at that time due to a number of factors including additional clarifications being sought, quorum, and timing of council meetings.

CEO RECOMMENDATION(S):

- Approve the renewals as presented.

DETAIL:

<u>Region:</u>	<u>Contract #:</u>	<u>FY14 \$:</u>	<u>FY15 \$:</u>	<u>Change:</u>
Strategic Initiatives	N/A	\$150,000	\$150,000	\$0.00
The renewal for the Tobacco Enforcement Officers was delayed due to discussions with Arizona Department of Revenue to determine when the renewal was to occur. Those discussions have concluded and mutually agreed that the renewal would occur with a July 1, 2014 effective date.				
Statewide	IGA-STATE-14-0633-01-Y2	\$350,000	\$350,000	\$0.00
University of California Berkley prints, reprints and/or revises The Arizona Parent Guides that are used in distribution with the Parent Kits. Renewal was delayed to determine if costs would continue to be the Same in FY2015 as they were in FY2014.				



FIRST THINGS FIRST

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AGENDA ITEM: First Things First 2014 Annual Report

BACKGROUND: The First Things First 2014 Annual Report is produced and submitted in accordance with A.R.S. §8-1192 A(4) and is distributed in accordance with section 41-4153. The report must describe the activities of the board, including a description of funds distributed and spent, and a description of the outcomes for children and families achieved by the board, the regional partnership councils, and the grant recipients.

The report is provided in draft format, since FY2014 expenditure and service data is not available until September 7. With Board approval, that information will be added and the report will be formatted for distribution by the September 15 statutory deadline.

RECOMMENDATION: The CEO recommends approval of the DRAFT annual report with FY2014 expenditure and service data to be added when it becomes available. Staff may make minor edits/alterations to the content as updated information becomes available or to meet the specifications of the final graphic design.

DRAFT

Ready for School. Set for Life.

2014 Annual Report



FIRST THINGS FIRST

Note: All photos and graphics are placeholders only.

Note: Inside Front Cover is a combination of graphic elements taken from the current advertising creative.

Strong Families, Strong Communities

It is a generally accepted maxim that the easiest (and least expensive) problem to fix is the one you prevent in the first place.

Many Arizonans already know First Things First as a crucial part of an early childhood system that works to close the school readiness gap and improve outcomes for all children by ensuring that more kids arrive at kindergarten ready to meet our state's high expectations.

But, when Arizona found itself facing a child welfare crisis – brought about in part by skyrocketing reports of child abuse or neglect and a sharp decline in resources to help struggling families – First Things First's role in the broader prevention and early intervention system became more apparent.

The programs funded by First Things First – like scholarships that help more kids birth to 5 years old access quality early learning programs *and* keep them safe while their parents work; screenings that identify learning delays early on; and, voluntary, home- or community-based coaching to help parents and grandparents learn how to create stable, nurturing environments for their children – strengthen families and communities throughout Arizona.

The data and stories in this report highlight some of First Things First's successes in the past year. These are just a few examples of what is possible when we commit ourselves to ensuring that children have the support they need in their crucial early years.

This report also highlights some of the challenges faced by kids 5 and younger throughout our state – and the proven strategies that can turn those statistics around – for children and for Arizona.

First Things First looks forward to our continued partnership with families and communities across Arizona – and to the future collaborations that will expand this crucial work on behalf of young children. We all have shared responsibility to ensure children arrive at school ready to be successful. By working together, we can build a brighter future for our kids and for Arizona.

Sincerely,

Janice Decker, Chair
First Things First Board

Sam Leyvas, Chief Executive Officer
First Things First

School Success Starts Early

The job of getting kids ready for school starts the day they are born. About 90% of a child's critical brain development happens *before* kindergarten. Because of this, a child's early experiences lay the foundation for their success in school and in life.

For example, did you know that gaps in children's vocabulary start to appear at the age of about 18 months, and that a child's vocabulary, attention and general knowledge at ages 3 and 4 are good predictors of reading comprehension at ages 9 and 10?

Study after study shows that kids with quality early childhood experiences score higher on school readiness assessments and do better in school. They are less likely to need special education or remediation services and more likely to graduate and advance in to college and successful careers. They also tend to be healthier and demand less from the public welfare system.

The Snapshot on next page shows some of the economic, education and health challenges young children in Arizona face. Some of these challenges – such as poverty, lack of access to early learning, and unidentified developmental delays – have been shown to impact children's school readiness.

The *good* news is that all of these challenges can be overcome. By ensuring that families have the tools they need to feel confident in their role as their child's first teacher, expanding access to early education through quality child care and preschool, and identifying health and development issues early on, we can ensure that children are prepared to succeed in kindergarten and beyond!

First Things First State Board

Janice L. Decker, Chair

Dr. Pamela Powell, Vice Chair

Nadine Mathis Basha, Member

Gayle Burns, Member

Steven W. Lynn, Member

Hon. Cecil Patterson, Member

Vivian Saunders, Member

Ruth Solomon, Member

Ex-Officio Members

Clarence H. Carter, Director, DES

Will Humble, Director, ADHS

John Huppenthal, Superintendent, ADE

A Snapshot of Arizona's Children – Note: Most data from SNA; some updated and/or found in other sources.

Demographics

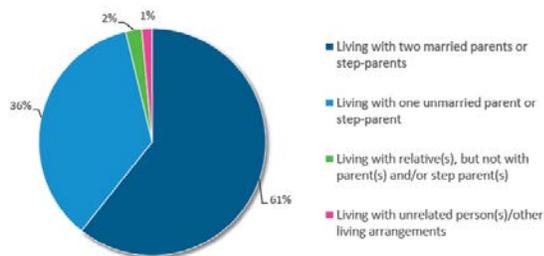
546,649

Number of Kids Under 6 in Arizona

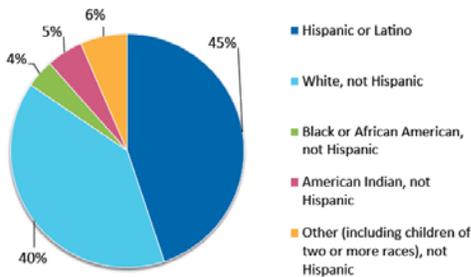
2,380,990 (16%)

Households with Kids Under 6

Living Arrangements of Kids Under 6



Ethnic Breakdown of Kids Under 6



Education

66%

Percentage of 3-4 Year-olds who don't go to preschool

25%

Percent of 3rd grade students passing AIMS in reading (2013)

23%

Percentage of Teens who Don't Graduate High School in Four Years

Economics

26%

Percentage of Young Kids in Poverty

42nd out of 50

Arizona ranks among the states with the highest rates of childhood poverty in the U.S.

8.3%

Arizona's 2012 unemployment rate continued to be above the national average (7.3%).

Health

9%

Babies Born to Teen Mothers

30%

Percentage of Arizona Infants/Toddlers with Untreated Tooth Decay (2009)

<50%

Percentage of Children With Developmental Delays Identified Before Starting School (CDC National Estimate)

First Things First Priorities

Strengthening Families: Strong families are the building blocks of a strong society. First Things First’s voluntary programs ensure that parents have choices when it comes to making decisions about what’s best for their children. Programs are available in a variety of settings and at the level that meets the family’s needs – from drop-in classes at community-based resource centers to more intensive, one-on-one support at home.

Quality Child Care and Preschool: Research shows that children exposed to high quality early education are more prepared when they enter kindergarten, do better in school, and are more likely to graduate and go on to college. First Things First works to improve the quality of child care and preschool. Through our website – QualityFirstAZ.com – parents can get information and tools to help them choose quality early learning settings that meet their families’ needs. In addition, First Things First funds scholarships that help more kids birth to 5 years old access quality child care or preschool *and* keep them safe while their parents work.

Preventative Health: Undetected developmental delays or early childhood medical conditions that are left untreated can impact a child’s development and learning later on. First Things First funds screening and outreach programs that help identify potential issues early on and refer families to resources that give them options for promoting their child’s health and well-being. First Things First also funds oral health screenings and fluoride varnishes for young children – and education for their families –to prevent dental problems (a major cause of school absences later on).

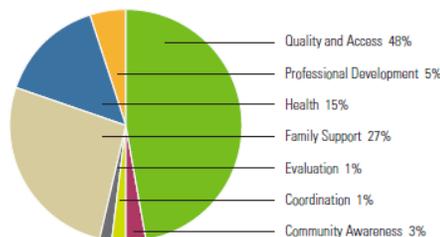
Workforce Development and Training: A child’s interactions with adult caregivers greatly impact brain development and school readiness. Because of this, it is important that infants, toddlers and preschoolers have teachers who know how to work with young kids. First Things First funds a variety of professional development opportunities to expand the skills of those working with infants, toddlers and preschoolers, including scholarships to increase access to higher education for child care professionals and incentives to keep the best teachers working with our youngest kids.

Community Awareness: We all have a shared responsibility to ensure that children arrive at school healthy and ready to succeed. First Things First works at the grassroots level to ensure that families and communities have the information and tools they need to actively support the education and health of their youngest children.

STATEWIDE FINANCIAL REPORT – Areas below will be re-named as indicated above and FY14 amounts added.

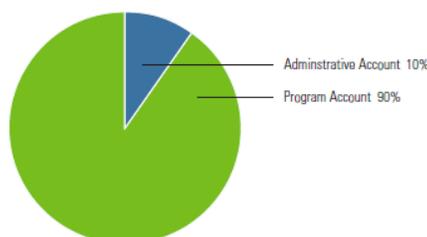
FY2013 Expenditures by Goal Area

Quality and Access	\$64,158,268
Professional Development	6,687,924
Health	19,252,446
Family Support	35,535,953
Evaluation	2,001,517
Coordination	1,142,964
Community Awareness	3,588,371
Total	\$132,367,443



FY2013 Revenues by Fund

Administrative Account	\$13,243,212
Program Account	119,188,905
Total	\$132,432,117



Notes: At the time of printing, the final reconciliation of FY2013 expenditures was not complete. As such, expenditures reported include June plus those expenditures reconciled as part of the state’s Period 13, but are not inclusive of final adjustments that tie the appropriation year to the fiscal year under an accrual accounting methodology. Figures rounded to the nearest 100.

First Things First Community Investments

Note: Expenditure amounts by region will be added in prior to finalization in mid-September.



Impact Across Arizona

Foster Family Finds Support

Brian and Jessica* knew their 2-year-old foster son needed some help – he had delayed speech and would throw intense temper tantrums any time his routine was disrupted. When their son was found ineligible for services provided through the Arizona Early Intervention Program (AzEIP), their foster licensing agency referred them to Parent Coaching and Support Services (PCSS), a program funded by First Things First in eastern Maricopa County.

Through PCSS – which is administered by Southwest Human Development – a parent coach worked with the family to complete assessments on their son and get him started in occupational and speech therapy. Three months later, he was re-assessed and found eligible to receive early intervention services through AzEIP.

The parent coach also completed assessments on the family’s foster daughter, who was unsteady in walking and running and had trouble with fine motor skills, like picking up small objects.

In addition to the developmental screenings, coaches in the program also worked with the family during regular visits to the home to discover ways to help their children learn. The family also had the opportunity to participate in parent and child play groups and receive guidance on child development and common parental concerns.

“There’s always room for improvement to help your child learn,” said Jessica. “This program provides you the resources to be a better parent, especially if you have concerns about your child’s development.”

Nadine, program manager for PCSS, said, “Parents should listen to their inner voice telling them that something is not right – because they know their child best – and seek out services.”

*Names changed due to confidentiality concerns.

Note: Insert box with FY14 family support stats after Sept. 7.

Scholarship Keeps Preschooler Learning, Dad Working

How does a single father raise three little girls and hold a job? For one Safford dad, a Quality First scholarship made all the difference.

“Josh came into my office explaining he needed child care for his youngest daughter,” said Corrina, preschool director at First United Methodist Preschool Daycare Program. “His babysitter had bailed out on him, and he was actually bringing (4-year-old) Kylee to work with him. He was afraid of losing his job.”

The family was new to the community. Josh had taken a cut in pay for a new job that allowed him more time with his daughters since he would no longer have to work weekends. He found that there was room for Kylee in the preschool program and that the family also qualified for a scholarship.

Quality First scholarships are available to qualifying families whose children attend child care and preschool settings that meet First Thing First's quality standards. The scholarships help families earning below 200% of the Federal Poverty Level afford high-quality early learning experiences for their young children.

"As I drove away from the building on Kylee's first day of child care, I stopped the car in the parking lot and just broke down," said Josh. "I finally felt relief. My child was in a safe place with people who cared for her. I can't describe the feeling. At last we were headed in the right direction."

Josh is a believer in paying it forward. He noticed that the church had received new basketball equipment but had no court. Josh's boss agreed to provide the equipment to build a court at no cost. Josh and other volunteers worked on Saturdays to build the court, which is also used for the preschool kids to ride their tricycles. "I feel so good about giving back to this program," he said. "My family owes them so much."

Note: Insert box with FY14 Quality and Access stats after Sept. 7

Screening Leads to Oral Surgery, Healthier Eating Habits for Preschooler

A routine oral health screening led to oral surgery and changes in family food choices for one Navajo Nation preschooler.

An oral health screening sponsored by First Things First at a Tuba City preschool revealed extensive decay in the teeth of one preschooler. The child's family was referred to a dentist, who later performed oral surgery on the child due to the extent of the decay.

Many people are not aware that decay in first teeth can cause problems with jaw and language development, speech delays, nutritional deficiencies and, if left untreated, chronic absences when young kids enter school.

Preschool teacher Catrina said the child's mother told her that, without the screening, she probably would not have taken the child to the dentist.

Catrina said since the screening, the preschooler's family has committed to changing the child's eating habits to prevent future dental decay and practicing good oral health.

"It has changed their eating habits and the snacks (the child) brings to school," Catrina said.

Note: Insert box with FY14 Health stats after Sept. 7.

Moving Forward

First Things First relies almost exclusively on tobacco revenue to fulfill its mission to enhance or expand early childhood programs. Unfortunately, over the past 5 years, tobacco revenue has decreased by about 23%, meaning that the organization has \$39 million less to work with on an annual basis than when it started.

The statewide Board has taken several proactive steps to maximize the sustainability of these funds and look for new partnership opportunities. First Things First's thoughtful and strategic approach to budgeting – which is based on analysis of spending over the past five years, as well as projected future tobacco revenues – ensures the stability of a base level of funding for the next decade.

At the same time, First Things First will continue its efforts in the broader community to increase the resources available to support early childhood programs, including expanding promising public/private partnerships.

But, ensuring that the resources exist to fulfill Arizona's commitment to our youngest kids is more than any one organization can achieve.

First Things First will continue to work with policymakers, educators, business leaders and philanthropic organizations to increase investment in areas that can yield the greatest return: the health and education of our youngest children.

Because everyone benefits when children arrive at school healthy and ready to be successful.

Think You Know First Things First?

While many Arizonans recognize First Things First as a crucial partner in enhancing school readiness for young children, they may not realize just how much First Things First invests in local communities. That's because First Things First largely partners with successful programs to expand their capacity to strengthen families. Below is a sample of the community-based programs whose crucial work has been supported through funding from First Things First.

Arizona Kith and Kin Project

Arizona Parent Kit

Baby Smarts

Best for Babies

Birth to 5 Helpline

Bright Beginnings

Building Bright Futures

Early Steps to School Success

Family Resource Centers

First Teeth First

Grandparents Raising Grandchildren

Growing Up Great

Healthy Families

Healthy Smiles

Healthy Steps

Imagination Library

KinderCamp

My Child's Ready

Nurse Family Partnership

Parents as Teachers

Professional Career Pathways

Professional REWARD\$

Quality First

Raising A Reader

Reach Out and Read

Safety, Nutrition, Activity, and Care for Kids (SNACK)

Smart Support

Smart Smiles

T.E.A.C.H. Early Childhood Arizona

Teen Outreach Pregnancy Services



As a pediatrician, I know positive, nurturing experiences in a child's first five years lay the foundation for a lifetime. That's why First Things First partners with communities across Arizona to strengthen families and support the health and learning of our youngest children.

- Dr. Lyndy Jones

As a teacher, I know that crucial skills like motivation, self-discipline and focus take root in the early years. That's why First Things First helps many of Arizona's young kids receive the quality early education, health care and family support they need to be ready for school and set for life.

- Nicole Teyechea McNeil



As a juvenile court judge, I know that what happens to kids in their early years sets the foundation for a lifetime. That's why First Things First partners with communities across Arizona to strengthen families and empower parents in their role as their child's first teacher.

- Hon. Richard Weiss,



BACK COVER



The First Things First annual report is produced and submitted in accordance with A.R.S. §8-1192 A(4) and is distributed in accordance with section 41-4153.

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FIRST THINGS FIRST

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AGENDA ITEM:

FTF Tobacco Tax Revenue Projections/Modeling and Sustainability Model Review

CEO RECOMMENDATION(S):

Receive the ASU report on Tobacco Tax Revenue and updated sustainability modeling projections

OVERVIEW:

At its July 2014 meeting the Board adopted a Program budget spending target of \$126.6 million. This Program spending budget was set so as to provide a stable, and known, annual expenditure level which could be sustained over multiple funding cycles based on projections of future revenues and current carry forward balances. Projections of tobacco tax revenues, by the ASU College of Business, were important in the evaluation of this analysis. These revenue projections, in combination with the newly set program spending target, provide FTF with an updated view of its sustainability model.

DETAIL:

At its April 2013 meeting the Board engaged the William Seidman Research Institute within the W.P. Carey School of Business at ASU to:

- Update the tobacco revenue model the Seidman Research Institute created for and presented to the Board in June 2012.
- Conduct a survey of tobacco users in Arizona for the purpose of further refining the inputs used in the tobacco revenue model.

During its July 2014 meeting, the Board reviewed Table 1 and received feedback from the Finance Committee regarding revenue projections. The Board determined that it was most reasonable to expect over time that actual revenue collection amounts would largely fall within the lower and expected boundaries as a result of such variables as e-cigarettes and population variability.

These latest estimates were the result of the updated and expanded scope of work completed by the Seidman Research Institute. The full report, *Tobacco Tax Revenue Forecast Study (2014)*, is attached for the Board's review.

Financial Year	Lower Boundary	Expected	Upper Boundary
2013	\$100,646,873	\$123,093,334	\$145,595,850
2014	\$100,071,862	\$122,664,080	\$145,358,942
2015	\$99,766,446	\$122,720,349	\$145,849,075
2016	\$99,684,854	\$123,127,900	\$146,830,536
2017	\$99,656,777	\$123,631,105	\$147,956,101
2018	\$99,571,587	\$124,058,259	\$148,983,710
2019	\$99,393,439	\$124,332,355	\$149,790,559
2020	\$99,071,553	\$124,377,730	\$150,275,524
2021	\$98,674,292	\$124,317,767	\$150,620,830
2022	\$98,231,826	\$124,200,737	\$150,893,823
2023	\$97,739,624	\$123,996,109	\$151,037,081
2024	\$97,181,610	\$123,675,320	\$151,009,363
2025	\$96,537,045	\$123,204,295	\$150,762,885
2026	\$95,810,126	\$122,608,120	\$150,344,079
2027	\$94,945,182	\$121,830,075	\$149,695,177
2028	\$94,031,754	\$120,996,239	\$148,994,675
2029	\$93,052,931	\$120,100,489	\$148,246,459
2030	\$92,031,929	\$119,164,619	\$147,471,554

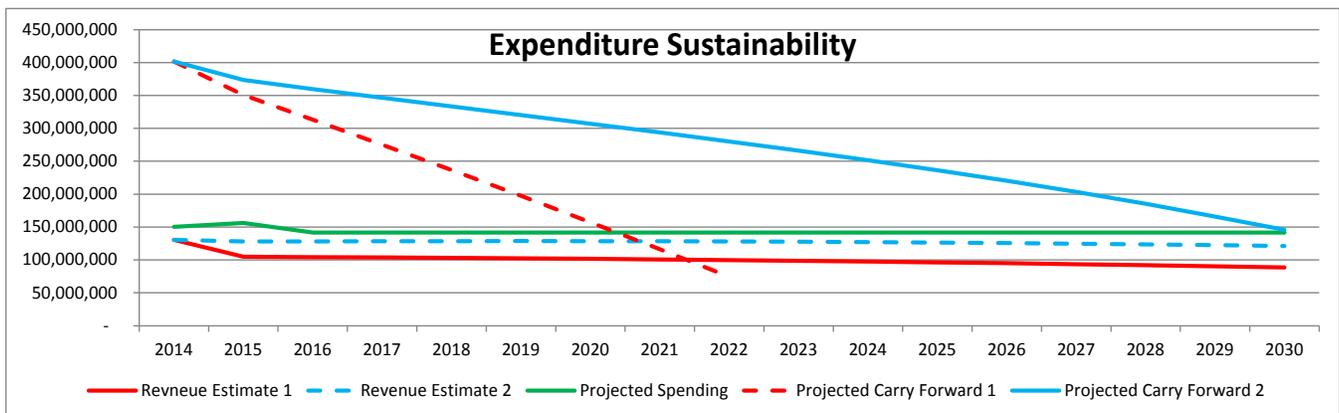
As discussed during the July 2014 meeting, these revenue projections, as well as the underlying data, will continue to be evaluated and updated at regular intervals so that if necessary “course corrections” in spending can be made in a timely and appropriate manner. Important in this review is the work done by ASU. Per the action taken by the Board at its April 2013 meeting, the model will be updated again in FY16 and FY18; with FY18 also including an update in the survey data.

In addition to tobacco revenues FTF also collects interest on its pooled cash (carry forward balances). These earnings are combined with tobacco revenues to make up FTF’s annual revenues used to support the subsequent year's spending. Interest revenue is a function of the annual rate and the amount of pooled cash that rate is earning against. As a result this projection is not a constant, but a variable that trends down over time – assuming a constant rate against a diminishing carry forward balance (cash pool).

When these revenue estimates are paired with spending projections and current carry forward balances, it yields a graphical representation of how long a spending level can be sustained.

The Board has targeted the Program spending level at \$126.6 million. In addition to this amount, FTF must also sustain an Administrative budget from the revenue it collects. Previous sustainability modeling has targeted this amount at \$15.1 million in future years. The sum of these two amounts would place projected future annual spending at \$141.7 million.

Based on the actions taken at the July 2014 Board meeting and current carry forward balances, the FY15 ending balance can be estimated. Starting with this balance, in combination with the projected expenditure level of \$141.7 million and the estimates of tobacco tax collections plus interested earned, we are able to project future carry forward balances for each tobacco revenue scenario; expected and lower boundaries. The graph below illustrates this modeling and displays a projection around how long this expenditure level can be sustained.



The point at which the expenditure level (represented by the **GREEN** line), can no longer be sustained is when the two lines of the same color cross. The above modeling shows, as previously discussed, that the expenditure budget as set by the Board in July can reasonably be expected to be sustained around 7 to 15 years. It is important to note that for this to happen current carry forward balances within the Administrative budget will need to be used in the later years to cover expenditures within the Program budget. As such, the Administrative budget will need to be adjusted down slightly earlier than the Program budget in order to facilitate this move/redirection of resources.

FIRST THINGS FIRST
TOBACCO TAX REVENUE FORECAST STUDY
Final Report



Dr. Tim James and Dr. Anthony Evans
L William Seidman Research Institute,
W. P. Carey School of Business,
Arizona State University

June 24, 2014

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EXECUTIVE SUMMARY

This report forecasts the annual revenue First Things First can potentially achieve from the luxury tobacco tax implemented in the state between 2014 and 2030.

First Things First currently receives \$0.80 cents from the sale of every pack of 20 cigarettes in Arizona on non-tribal lands. First Things First also receives a range of other taxes from sales of other forms of tobacco.

We forecast that the number of Arizona residents smoking cigarettes could increase from 882,000 in 2014 to 1,148,000 by 2030.

We also forecast that smoking will generate \$306.7 million in luxury tobacco tax revenue for the state in FY2014, falling to \$297.9 million in 2030, based on a number of assumptions including:

- No retail price changes.
- Constant state and federal tobacco tax rates.
- Constant consumption patterns drawn from a telephone survey of 2,800 Arizona residents.
- A set percentage of cigarette purchases occurring on-reservation, also drawn from the telephone survey.

Based on these assumptions, we estimate an expected revenue of \$122.7 million for First Things First in FY2014, falling to \$119.2 million in FY2030.

To provide realistic floors and ceilings on revenue forecasts, we also calculate 90% confidence levels for each annual forecast.

These suggest with 90% confidence that First Things First's revenue will range between \$100.1 million in and \$145.4 million in FY2014.

Projected annual revenue forecasts, with lower and upper boundaries up to 2030, are illustrated in the following Table.

The FY2013 model estimates are included as a form of validation. The model predicts expected revenue of \$123.1 million in FY2013, compared to First Things First's actual collection of \$125.8 million.

First Things First Projected Annual Revenue, 2013-2030, with Lower and Upper Boundaries

Financial Year	Lower Boundary	Expected	Upper Boundary
2013	\$100,646,873	\$123,093,334	\$145,595,850
2014	\$100,071,862	\$122,664,080	\$145,358,942
2015	\$99,766,446	\$122,720,349	\$145,849,075
2016	\$99,684,854	\$123,127,900	\$146,830,536
2017	\$99,656,777	\$123,631,105	\$147,956,101
2018	\$99,571,587	\$124,058,259	\$148,983,710
2019	\$99,393,439	\$124,332,355	\$149,790,559
2020	\$99,071,553	\$124,377,730	\$150,275,524
2021	\$98,674,292	\$124,317,767	\$150,620,830
2022	\$98,231,826	\$124,200,737	\$150,893,823
2023	\$97,739,624	\$123,996,109	\$151,037,081
2024	\$97,181,610	\$123,675,320	\$151,009,363
2025	\$96,537,045	\$123,204,295	\$150,762,885
2026	\$95,810,126	\$122,608,120	\$150,344,079
2027	\$94,945,182	\$121,830,075	\$149,695,177
2028	\$94,031,754	\$120,996,239	\$148,994,675
2029	\$93,052,931	\$120,100,489	\$148,246,459
2030	\$92,031,929	\$119,164,619	\$147,471,554

Source: Authors' Calculations

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1. Introduction and Objectives

First Things First is an early childhood development and health board, committed to helping Arizona children up to the age of 5 receive the educational, healthcare and family support needed to enable them to arrive at school healthy and ready to succeed. Formed in 2006 to counteract concerns about the state's high child poverty rates, the organization is funded by a voter-enacted luxury tobacco tax (Prop. 203), and managed by a Board of Trustees in association with 31 Regional Partnership Councils.

Faced with declining revenues, caused in part by the economic recession, lower than anticipated population growth, and general changes in attitudes towards smoking and smoking consumption, First Things First originally approached the L. William Seidman Research Institute in late 2011 to commission a reassessment of tobacco tax revenue forecasts up to 2030. This resulted in our publication of a report in May 2012, which estimated that First Things First's FY2012 revenue would range between \$120.9 million and \$144.1 million (90% confidence level), including an expected value of \$132.5 million. First Things First's actual revenue for that year was \$128.3 million.

A key shortfall of our FY2012 forecast was the use of an external (secondary) estimate of smoking patterns by age and gender in the State of Arizona, which was based on a very small sample. To improve knowledge in this area, we have therefore been commissioned by First Things First to design, implement and analyze a short quarterly telephone survey of Arizona residents, to ascertain their propensity to smoke, the average level of consumption, and their primary places of purchase, by population cohort and gender.

Drawing from the results of this quarterly telephone survey, implemented between July 2013 and April 2014, in conjunction with an update of previous forecast model assumptions, the objectives of our current report are therefore to:

- Re-estimate the 2014-2030 tax revenue forecasts based on a more thorough and statistically significant analysis of current smoking patterns in the state.
- Provide indicative sensitivity analyses and confidence levels for the tobacco tax revenue estimates, to provide realistic ceilings and floors on revenues.
- Utilize our tobacco state tax revenue forecasts to project the anticipated annual revenue for First Things First, 2014-2030, including higher and lower boundaries.

The report's findings will be used by the Board and 31 Regional Partnership Councils to formulate an effective program of attainable activities given the revenue constraints, targeting First Things First's goals and impact areas.

Section 2 of the report describes the forecast model's central inputs and assumptions. An annual forecast for the luxury tobacco tax collected by the Arizona Department of Revenue is described in Section 3. We then use the statewide total to calculate anticipated annual revenue for First Things First, with higher and lower boundaries, in Section 4. Conclusions are offered in Section 5.

2. Forecast Model Central Inputs and Assumptions

To arrive at an annual revenue forecast, we initially forecast the Arizona population up to 2030, and then calculate the smoker population cohort by age and gender, based on a telephone survey of 2,800 Arizona residents. Applying a locational point-of-purchase estimate to the survey's levels of tobacco consumption, we make a number of adjustments and assumptions concerning retail prices, federal and state tax rates, and a year-on-year decline in the propensity to smoke. We then implement a sensitivity analysis using *@Risk* to arrive at a series of annual forecasts, with 90% confidence levels. An explanation of each central input and assumption follows.

2.1. Population Cohorts

Our smoker market segmentation analysis consists of two stages. First, we calculate a series of population cohorts for the period 2014-2030, delineated by age and gender; and we then apply a propensity to smoke rate by age and gender to each cohort.

The model's population projections for the entire state (smoker and non-smoker) use the Arizona Department of Administration (AZDoA) Office of Employment and Population Statistics population projection estimates, 2012 to 2035.¹ These use a 2010 Census data population figure of 6,392,017 as a starting point, and offer three series of projections. A brief overview of the three series is as follows:

AZDoA's low estimate assumes that fertility rates do not rebound to the 2007 pre-recession level, and assume that life expectancy will only reach the Social Security Administration's 2030 level by 2050. The low estimate also positions total net migration at 70% of the medium estimate's positive and 130% of the medium estimate's negative controls.

AZDoA's medium estimate assumes that fertility rates rebound 50% of the way back to 2007 by 2017, and will remain at those levels until 2022. The life expectancy rate included in the medium estimate adds the difference between the Social Security Administration's 2010 and 2050 estimates to an Arizona 2010 estimate to arrive at a total for the state in 2050. Linear extrapolation is then used for 2011-2049. The medium estimate also uses the Census Bureau's preliminary projection of net foreign migration, along with Arizona-specific data on legal permanent residents, to project foreign migration controls.

AZDoA's high estimate assumes that fertility rates rebound to 100% of the 2007 level by 2017 and remain there for at least 5 years, with life expectancy reaching the Social Security Administration's 2070 level by 2050. The high estimate also positions total net migration at 125% of the medium estimate's positive and 75% of the medium estimate's negative controls.

¹ A detailed description of AZDoA's population projection methodology is available at: <http://www.workforce.az.gov/pubs/demography/ArizonaPopulationProjections2012.pdf>.

Table 1: Population Cohort Forecast by Age and Gender, 2014-2030

	2014			2015			2016			2017			2018		
	Lower	Expected	Upper												
Male															
14-17	192,819	193,860	194,722	195,532	197,324	198,805	199,046	201,732	203,951	202,018	205,663	208,671	205,021	209,582	213,342
18-24	347,398	349,300	350,901	354,375	357,668	360,434	360,337	365,286	369,433	365,067	371,828	377,482	369,904	378,459	385,602
25-34	445,584	448,151	450,333	446,426	450,835	454,579	451,531	458,209	463,879	458,921	468,183	476,049	466,880	478,821	488,965
35-44	421,384	422,720	423,867	423,829	426,170	428,173	425,749	429,336	432,400	430,169	435,215	439,521	436,233	442,875	448,542
45-54	413,778	415,185	416,358	416,157	418,544	420,532	419,375	422,880	425,796	420,341	425,008	428,888	419,893	425,641	430,419
55-64	365,782	368,388	370,524	376,046	380,587	384,315	387,147	393,962	399,559	398,060	407,297	414,879	408,040	419,548	428,981
65+	462,188	464,977	467,251	480,261	485,315	489,450	497,859	505,750	512,223	516,545	527,788	537,030	535,658	550,458	562,638
Female															
14-17	182,366	183,216	183,917	184,761	186,218	187,422	187,528	189,705	191,503	189,930	192,877	195,310	192,591	196,278	199,319
18-24	318,195	319,901	321,321	324,619	327,579	330,040	330,792	335,248	338,949	335,452	341,514	346,545	339,266	346,859	353,151
25-34	421,710	423,901	425,752	421,713	425,494	428,687	423,823	429,547	434,378	428,502	436,448	443,155	433,907	444,160	452,816
35-44	413,487	415,070	416,404	415,918	418,677	421,001	418,611	422,810	426,343	423,101	428,936	433,844	429,769	437,323	443,678
45-54	417,580	419,449	420,990	419,497	422,707	425,355	422,619	427,382	431,310	425,258	431,683	436,977	425,757	433,726	440,288
55-64	403,185	405,881	408,089	412,767	417,516	421,414	423,185	430,381	436,294	432,490	442,335	450,427	441,051	453,454	463,643
65+	550,426	552,874	554,865	571,140	575,571	579,182	592,020	598,951	604,607	613,983	623,884	631,970	636,607	649,701	660,397

Source: Authors' Calculations

Table 1 (Continued): Population Cohort Forecast by Age and Gender, 2014-2030

	2019			2020			2021			2022			2023		
	Lower	Expected	Upper												
Male															
14-17	207,507	212,871	217,287	208,750	214,776	219,730	209,748	216,347	221,764	212,087	219,244	225,095	213,562	221,353	227,713
18-24	374,722	384,969	393,511	380,119	391,968	401,830	386,215	399,631	410,779	391,094	405,967	418,310	395,949	412,200	425,671
25-34	476,302	490,916	503,340	484,253	501,458	516,093	492,888	512,701	529,564	503,047	525,518	544,647	514,225	539,436	560,894
35-44	441,683	450,008	457,115	445,575	455,679	464,319	450,976	463,011	473,320	455,772	469,875	481,976	459,014	475,262	489,235
45-54	418,803	425,527	431,117	420,039	427,709	434,093	421,907	430,582	437,813	424,578	434,320	442,457	427,463	438,335	447,439
55-64	415,886	429,310	440,290	421,969	436,930	449,136	425,121	441,371	454,592	426,012	443,294	457,315	426,455	444,577	459,237
65+	555,120	573,509	588,651	575,520	597,604	615,785	595,167	621,051	642,350	615,433	645,287	669,838	636,553	670,530	698,444
Female															
14-17	194,458	198,796	202,372	195,019	199,895	203,911	195,184	200,535	204,938	196,795	202,638	207,428	198,108	204,549	209,824
18-24	342,740	351,700	359,114	347,367	357,579	366,017	352,030	363,428	372,830	355,835	368,316	378,595	360,079	373,594	384,709
25-34	441,458	454,062	464,704	447,930	462,835	475,421	454,451	471,660	486,188	463,018	482,597	499,116	472,447	494,406	512,917
35-44	435,071	444,310	452,089	438,991	449,894	459,085	444,443	457,112	467,808	447,934	462,395	474,626	449,762	466,040	479,836
45-54	425,568	434,906	442,587	426,895	437,508	446,233	430,272	442,185	451,975	434,886	448,126	459,003	439,084	453,650	465,619
55-64	447,972	462,617	474,632	453,296	469,865	483,433	454,831	473,062	487,959	454,520	474,181	490,212	453,673	474,560	491,547
65+	659,681	676,076	689,463	683,317	703,138	719,312	706,640	730,055	749,149	730,389	757,598	779,768	755,202	786,435	811,862

Source: Authors' Calculations

Table 1 (Continued): Population Cohort Forecast by Age and Gender, 2014-2030

	2024			2025			2026			2027			2028		
	Lower	Expected	Upper												
Male															
14-17	214,007	222,537	229,493	213,654	223,061	230,734	212,687	223,122	231,641	211,174	222,857	232,386	209,871	223,249	234,163
18-24	399,950	417,450	431,943	401,877	420,447	435,814	403,288	422,779	438,900	406,998	427,440	444,304	409,298	430,895	448,703
25-34	525,620	553,616	577,437	536,304	567,074	593,244	545,654	579,131	607,589	551,918	587,948	618,574	558,707	597,292	630,083
35-44	462,669	481,202	497,174	464,162	485,081	503,147	469,303	492,836	513,191	476,405	502,754	525,566	484,122	513,395	538,759
45-54	429,628	441,671	451,783	432,477	445,781	456,990	434,395	449,038	461,420	438,581	454,717	468,409	444,489	462,318	477,495
55-64	427,716	446,586	461,808	429,828	449,302	464,968	432,440	452,525	468,643	432,504	453,104	469,605	431,221	452,268	469,107
65+	656,774	694,939	726,260	679,242	721,792	756,668	699,978	746,881	785,270	720,106	771,364	813,255	739,523	795,125	840,501
Female															
14-17	198,468	205,624	211,482	198,231	206,248	212,811	197,483	206,509	213,904	196,023	206,250	214,617	194,571	206,413	216,096
18-24	363,002	377,449	389,317	363,732	378,961	391,460	363,768	379,684	392,738	366,242	382,931	396,579	368,236	385,947	400,424
25-34	482,268	506,600	527,089	492,371	519,056	541,498	501,667	530,635	554,965	507,677	538,699	564,725	513,153	546,116	573,744
35-44	452,087	470,269	485,711	452,596	472,728	489,864	454,599	476,795	495,724	458,974	483,437	504,329	464,200	491,067	514,036
45-54	442,661	458,560	471,632	445,627	462,837	477,002	448,359	466,939	482,254	452,617	472,662	489,211	459,212	480,885	498,807
55-64	453,949	475,986	493,860	455,855	478,927	497,585	458,367	482,418	501,809	459,991	484,957	505,029	459,435	485,172	505,812
65+	778,683	814,035	842,784	803,699	843,421	875,687	827,517	871,671	907,494	849,523	898,129	937,513	871,029	924,165	967,160

Source: Authors' Calculations

Table 1 (Continued): Population Cohort Forecast by Age and Gender, 2014-2030

	2029			2030		
	<i>Lower</i>	<i>Expected</i>	<i>Upper</i>	<i>Lower</i>	<i>Expected</i>	<i>Upper</i>
Male						
14-17	209,830	225,436	238,150	211,051	229,471	244,439
18-24	410,000	433,018	452,002	409,541	434,318	454,772
25-34	565,811	606,927	641,855	572,951	616,527	653,536
35-44	493,570	525,871	553,876	501,840	537,181	567,839
45-54	449,917	469,592	486,393	453,901	475,548	494,095
55-64	429,691	451,234	468,462	430,763	452,921	470,644
65+	757,696	817,549	866,319	775,640	839,702	891,823
Female						
14-17	194,421	208,371	219,752	195,335	211,931	225,427
18-24	368,807	387,807	403,341	368,529	389,154	406,033
25-34	518,299	553,106	582,251	523,898	560,480	591,083
35-44	472,012	501,508	526,732	478,990	511,159	538,677
45-54	464,534	487,843	507,153	468,545	493,495	514,210
55-64	458,536	485,002	506,177	459,655	486,964	508,769
65+	891,667	949,362	995,981	911,565	973,809	1,024,029

Source: Authors' Calculations

2.2. Propensity to Smoke and Smoker Numbers by Cohort

Next, we apply the propensity to smoke estimates by age and gender findings from the quarterly omnibus telephone surveys to each population cohort.

Assuming that our forecast model's rates are time-constant, we also specify a normal distribution around the central estimates to reflect uncertainties. Table 2 illustrates our propensity to smoke rates by cohort.

Table 2: Propensity to Smoke by Age and Gender²

	Male		Female	
	FY2012 Forecast	Current Forecast	FY2012 Forecast	Current Forecast
14-17	18.5%	22.7%	16.7%	7.0%
18-24	26.7%	22.7%	21.3%	7.0%
25-34	22.8%	23.2%	18.3%	18.6%
35-44	23.4%	19.9%	18.9%	15.5%
45-54	25.8%	23.0%	20.7%	16.4%
55-64	21.5%	21.9%	17.3%	12.8%
65+	9.9%	11.4%	7.8%	7.6%

Source: Authors' Calculations

The omnibus survey mean consumption estimate of 17.51 cigarettes per day for males, and 14.73 cigarettes per day for females is used in the current forecast model. We also assume a 2% year-on-year total decline in tobacco consumption.

To forecast smoker numbers by cohort up to 2030, we multiply population cohort size by the propensity to smoke. The results are illustrated in Table 3. Again, we assume that these are normally distributed to reflect uncertainties.

2.3. Net Impact of Visitors

Our FY2012 model included an adjustment for the constant movement of people in and out of Arizona. Local residents travelling out-of-state, for example, in all probability purchase some of their annual tobacco consumption at their destinations, while visitors to Arizona add to local tobacco sales. However, the reliability of the net impact of visitors estimate is open to question.

² The 14-17 cohorts are inadequately represented in the omnibus survey, as the latter was targeted at residents aged 16 or older. Our current model forecasts therefore use the same propensity to smoke estimates as the 18-24 age group. An alternative option could be to use the 14-17 cohort smoking consumption estimates from the 2013 Youth Risk Behavior Survey for Arizona High School pupils - 16.3% male; 11.4% female. These are available at: <http://www.azed.gov/prevention-programs/files/2013/11/2013azbh-detail-tables.pdf>.

Table 3: Arizona Smoker Population Forecast by Age and Gender, 2014-2030

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Male																	
14-17	44,006	44,793	45,793	46,685	47,575	48,322	48,754	49,111	49,768	50,247	50,516	50,635	50,649	50,589	50,678	51,174	52,090
18-24	79,291	81,191	82,920	84,405	85,910	87,388	88,977	90,716	92,154	93,569	94,761	95,441	95,971	97,029	97,813	98,295	98,590
25-34	103,971	104,594	106,304	108,618	111,086	113,893	116,338	118,947	121,920	125,149	128,439	131,561	134,358	136,404	138,572	140,807	143,034
35-44	84,121	84,808	85,438	86,608	88,132	89,552	90,680	92,139	93,505	94,577	95,759	96,531	98,074	100,048	102,166	104,648	106,899
45-54	95,493	96,265	97,262	97,752	97,898	97,871	98,373	99,034	99,894	100,817	101,584	102,530	103,279	104,585	106,333	108,006	109,376
55-64	80,677	83,349	86,278	89,198	91,881	94,019	95,688	96,660	97,081	97,362	97,802	98,397	99,103	99,230	99,047	98,820	99,190
65+	53,007	55,326	57,656	60,168	62,752	65,380	68,127	70,800	73,563	76,440	79,223	82,284	85,144	87,935	90,644	93,201	95,726
Female																	
14-17	12,825	13,035	13,279	13,501	13,739	13,916	13,993	14,037	14,185	14,318	14,394	14,437	14,456	14,438	14,449	14,586	14,835
18-24	22,393	22,931	23,467	23,906	24,280	24,619	25,031	25,440	25,782	26,152	26,421	26,527	26,578	26,805	27,016	27,146	27,241
25-34	78,846	79,142	79,896	81,179	82,614	84,456	86,087	87,729	89,763	91,959	94,228	96,544	98,698	100,198	101,578	102,878	104,249
35-44	64,336	64,895	65,536	66,485	67,785	68,868	69,734	70,852	71,671	72,236	72,892	73,273	73,903	74,933	76,115	77,734	79,230
45-54	68,790	69,324	70,091	70,796	71,131	71,325	71,751	72,518	73,493	74,399	75,204	75,905	76,578	77,517	78,865	80,006	80,933
55-64	51,953	53,442	55,089	56,619	58,042	59,215	60,143	60,552	60,695	60,744	60,926	61,303	61,749	62,075	62,102	62,080	62,331
65+	42,018	43,743	45,520	47,415	49,377	51,382	53,438	55,484	57,577	59,769	61,867	64,100	66,247	68,258	70,237	72,152	74,009

Source: Authors' Calculations

The Arizona Office of Tourism estimates that non-residents accounted for 23.8 million overnight stays in 2012, including 5 million overnight stays by international visitors.³

The Bureau of Transportation Statistics' Airline Origin and Destination Survey estimates that 20,790,100 passengers departed from Arizona airports in 2012, and 20,570,500 in 2013, based on a 10% sample of airline tickets from reporting carriers at airports throughout Arizona.⁴ However, they do not provide an estimate for trip duration, thereby undermining the value of their estimate for the current model.

Given the lack of statistically reliable data for the movement of people in and out of the state, our current model therefore does not take into account the net impact of visitors.

2.4. Prices and Taxes

Our model assumes the average price of a pack of cigarettes in 2013 is \$6.71, with the price remaining constant in real terms thereafter.⁵

The tobacco tax rate currently stands at \$1 per pack of 20 cigarettes (or 5 cents per cigarette) for on-reservation sales, and \$2 per pack of 20 cigarettes (or 10 cents per cigarette) for all off-reservation sales. We assume that these cigarette state tax rates, along with a federal tax of \$1.01 per pack, remain constant throughout the forecast period. This is in part due to the absence of a forecast for tobacco tax and price changes in the public domain

The current model also includes a price elasticity of demand co-efficient (-0.611) derived from our econometric estimates for Arizona,⁶ consistent with our FY2012 model.

2.5. Non-Cigarette Adjustment

Although cigarette tax accounts for by far the greatest share of tobacco tax revenue raised by the state, other forms of tobacco tax also generate revenue at off-reservation retail outlets, illustrated in Table 4.

³ The Arizona Office of Tourism's latest available data is for 2012, but they do not project future visitation patterns: <http://azot.gov/system/files/982/original/GCOT%20Research%20Breakout%20FINAL%20Revised%2008.29.13.pdf?1377809898>

⁴ Source: www.btrans.gov

⁵ Source: Campaign for Tobacco-Free Kids, June 20, 2014, *State Excise & Sales Taxes Per Pack of Cigarettes*, available at: www.tobaccofreekids.org/research/factsheets/pdf/0202.pdf.

⁶ This price elasticity of demand coefficient fits with other externally validated evidence.

Table 4: Non-Cigarette State Tobacco Tax Rates (Off-Reservation Sales)

Tobacco	Total State Tax Rate
Smoking tobacco and snuff	\$0.223 per oz.
Cavendish plus plug or twist	\$0.055 per oz.
Small cigars weighing not more than 3lbs per 1000	\$0.441 per 20
All other cigars retailing at not more than \$0.05 each	\$0.218 per 3
All other cigars retailing at more than \$0.05 each	\$0.218

Source: Arizona Department of Revenue

2.6. Revenue Split

We assume that First Things First will continue to receive a 40% share of total tobacco tax revenue received by the Arizona Department of Revenue.

2.7. Impact of Tribal Lands

Our omnibus survey asked participants to apportion their tobacco purchases by three locational categories. These were on-reservation; off-reservation; and other. The results are illustrated in Table 5.

Table 5: Mean Percentage Purchase of Cigarettes by Location

	Retail/Vendor On-Reservation	Retail/Vendor Off-Reservation	Other/Out-of-State
Male	33.75%	58.86%	7.38%
Female	35.86%	50.50%	13.63%
Total	34.73%	54.98%	10.29%

Our current model therefore now makes an adjustment for the impact of tobacco sales on tribal lands – a key difference compared to the FY2012 model.

3. State Luxury Tobacco Tax Revenue Forecasts, 2014-2030

To arrive at annual forecasts of state luxury tobacco tax revenue for the period 2014-2030, we enter the central inputs (and their associated specified distributions) described in Section 2 into an *Excel*-based model that utilizes *@Risk*. *@Risk* answers a series of “what if” questions, designed to assess the sensitivity of each annual forecast to variations in key determinants. It uses Monte Carlo simulations to look at all possible outcomes, and the likelihood of their occurrence. That is, it uses the estimated distributions for a wide range of user-defined factors to provide a probability distribution and confidence interval for each forecast. The table below includes a 2013 expected estimate in part to validate the model (\$307,733,335). The actual FY2013 statewide tobacco tax revenue was \$315,095,046.

Table 6: Arizona’s Actual and Projected Annual Luxury Tobacco Tax Revenue, 2013-2030

Financial Year	Lower Boundary	Expected	Upper Boundary
2013	\$251,617,181	\$307,733,335	\$363,989,625
2014	\$250,179,654	\$306,660,200	\$363,397,355
2015	\$249,416,115	\$306,800,873	\$364,622,689
2016	\$249,212,135	\$307,819,751	\$367,076,341
2017	\$249,141,943	\$309,077,762	\$369,890,253
2018	\$248,928,968	\$310,145,648	\$372,459,276
2019	\$248,483,598	\$310,830,887	\$374,476,397
2020	\$247,678,883	\$310,944,325	\$375,688,811
2021	\$246,685,729	\$310,794,418	\$376,552,076
2022	\$245,579,565	\$310,501,842	\$377,234,559
2023	\$244,349,059	\$309,990,273	\$377,592,702
2024	\$242,954,024	\$309,188,300	\$377,523,406
2025	\$241,342,614	\$308,010,739	\$376,907,213
2026	\$239,525,315	\$306,520,301	\$375,860,197
2027	\$237,362,956	\$304,575,189	\$374,237,944
2028	\$235,079,386	\$302,490,597	\$372,486,688
2029	\$232,632,328	\$300,251,222	\$370,616,147
2030	\$230,079,824	\$297,911,549	\$368,678,886

Source: Authors’ Calculations

Table 6 summarizes the *@Risk* output, which provides an expected revenue scenario each year (expressed in 2014\$) throughout the period 2013-2030. For example, we forecast that, all other things being equal, Arizona Department of Revenue could generate approximately \$306.7 million in total from the luxury tobacco tax in FY2014. Table 6 also displays a lower and upper boundary each year, based on a 90% confidence interval. For example, we forecast with 90% confidence that the total tobacco tax collected by the state in FY2014 could be as low as \$250.2 million, or as high as \$363.4 million.

4. First Things First Revenue Forecasts, 2014-2030

First Things First currently receives \$0.80 from every \$2 of tax collected by the State from the sale of a pack of 20 cigarettes. It also receives a wide range of other tax rates from other forms of tobacco previously illustrated in Table 4 (page 10). However, the total tax revenue collected from other forms of tobacco in FY2011 equated to only 5.87% of gross cigarette tax revenue; and the omnibus survey responses for other forms of tobacco are too small to be statistically reliable and valid. As a result, we provide an annual revenue forecast for First Things, illustrated in Table 7, primarily based on cigarette taxes.

Table 7: First Things First Actual and Projected Annual Revenue, 2013-2030

Financial Year	Lower Boundary	Expected	Upper Boundary
2013	\$100,646,873	\$123,093,334	\$145,595,850
2014	\$100,071,862	\$122,664,080	\$145,358,942
2015	\$99,766,446	\$122,720,349	\$145,849,075
2016	\$99,684,854	\$123,127,900	\$146,830,536
2017	\$99,656,777	\$123,631,105	\$147,956,101
2018	\$99,571,587	\$124,058,259	\$148,983,710
2019	\$99,393,439	\$124,332,355	\$149,790,559
2020	\$99,071,553	\$124,377,730	\$150,275,524
2021	\$98,674,292	\$124,317,767	\$150,620,830
2022	\$98,231,826	\$124,200,737	\$150,893,823
2023	\$97,739,624	\$123,996,109	\$151,037,081
2024	\$97,181,610	\$123,675,320	\$151,009,363
2025	\$96,537,045	\$123,204,295	\$150,762,885
2026	\$95,810,126	\$122,608,120	\$150,344,079
2027	\$94,945,182	\$121,830,075	\$149,695,177
2028	\$94,031,754	\$120,996,239	\$148,994,675
2029	\$93,052,931	\$120,100,489	\$148,246,459
2030	\$92,031,929	\$119,164,619	\$147,471,554

Source: Authors' Calculations

Table 7 summarizes the *@Risk* output, to provide an annual expected revenue scenario (expressed in 2012\$) up to 2030. For example, we forecast that, all other things being equal, First Things First can reasonably expect to receive approximately \$122.7 million from the luxury tobacco tax collected by the Arizona Department of Revenue in FY2014.

However, to provide a realistic floor on revenues, Table 7 also provides lower and upper boundaries for each annual forecast. For example, we suggest with 90% confidence that First Things First's revenue in FY2014 could range between \$100.1 million and \$145.4 million.

By 2030, First Things First's share of the tobacco tax revenue could range between \$92 million and \$147.5 million, with an expected revenue estimate of \$119.2 million.

5. Conclusion

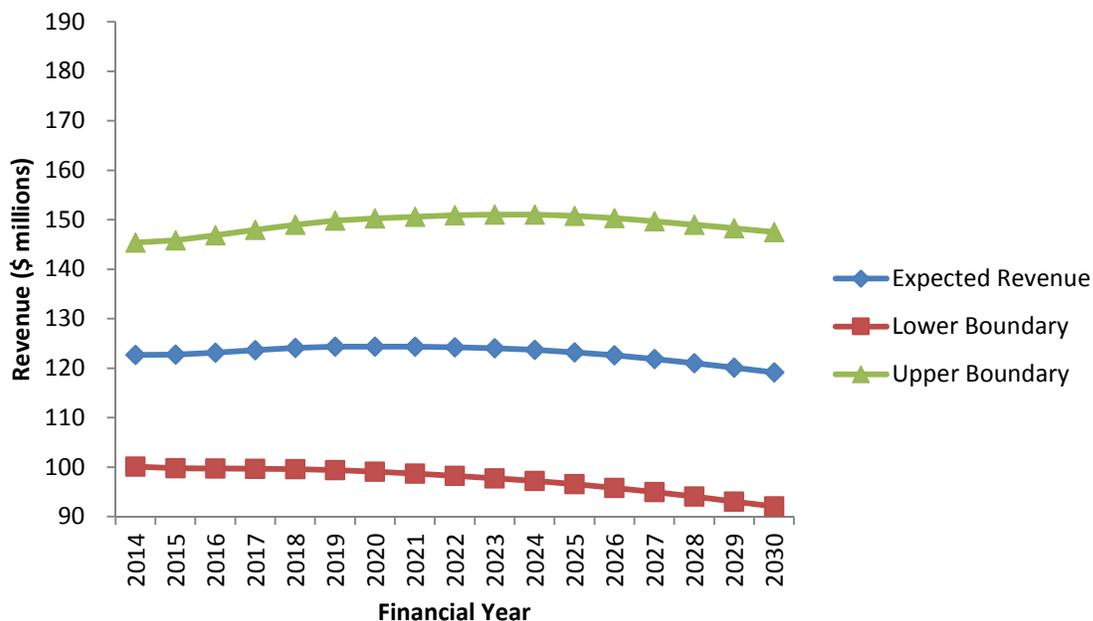
The purpose of this report is to provide an annual revenue forecast for First Things First, to enable the organization to effectively plan for the future.

Our previous development of a robust series of forecasts for FY2012-FY2030 proved quite challenging, due to the unavailability of smoker cohort data, and the inadequacy of state-wide population forecasts which have not been updated since 2005-06. However, our current model compensates for this shortcoming by using data from a quarterly omnibus survey of Arizona residents, implemented July 2013 to April 2014.

Using Arizona Department of Administration population projections in conjunction with our survey data, we have developed a more robust smoker cohort forecast model for FY2014-FY2030.

To arrive at an annual forecast, we build a number of assumptions into our model, which could impact future revenue. These include a constant cigarette retail price, constant state and federal tax rates, an adjustment for tobacco purchased on-reservation, and an assumption that First Things First will continue to receive 40% of all state tobacco tax revenues.

Figure 1: First Things First Expected Annual Revenue, 2014-2030 at 90% Confidence Level



Source: Authors' Calculations

Based on these assumptions, we forecast expected revenue of \$122.7 million for First Things First in FY2014, falling to \$119.2 million in FY2030. However, to provide a realistic floor on revenues, we also calculate lower and upper boundaries for each annual forecast, to indicate the likely range of revenue each year. This is shown in Figure 1.

For example, Figure 1 suggests with 90% confidence that First Things First's revenue in FY2014 could range between \$100 million and \$145 million. In FY2020, it could range between \$99 million and \$150 million, with expected revenue of \$124 million. In FY2030, it could range between \$92 million and \$147 million, with expected revenue of \$119 million.

Three caveats should be noted in relation to our latest estimates:

- The omnibus survey data does not take into account the growing adoption of e-cigarettes. We therefore recommend that future surveying years additionally take consider this alternative to smoking, which could impact tobacco tax revenues.
- It is impossible to quantify how each cohort's level of consumption cohorts will increase or decrease over time.
- We intuitively believe that there is a greater influx of visitors to the state, compared to residents temporarily leaving Arizona, but cannot find a reliable data source to support this position. As a result, our current model does not take into account the net impact of visitors; and our latest estimates could therefore err on the conservative side.

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