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PRELIMINARY FY 2010 BUDGET REVIEW

SUMMARY

SEPTEMBER 24, 2008

ARS 8-1181 requires the Board to adopt a comprehensive budget by October 31 of each year for programs and administration funding for the next fiscal year. There are specific information requirements and the Board is to conduct a public hearing to review the finances and adopt a budget. The requirements include:

- 1) Receipts during the last and current year;
- 2) Expenditures during the past fiscal year and year-to-date;
- 3) Estimates of expenses for regional plans, statewide grants, educational activities, administrative costs, and federal grants or gifts;
- 4) Anticipated revenue by source;
- 5) An asset and liability statement;
- 6) Cash on hand and anticipated balance at the end of the current fiscal year; and,
- 7) An itemized statement of commitments, reserves and anticipated obligations for the next fiscal year.

The statutes also provide that the Board may amend the budget at any time on a finding of good cause.

To help prepare the Board for a decision on the FY 2010 budget, relevant materials and policy questions are presented herein as a preliminary review of what will be provided at the October Board meeting.

The policy issues are:

- 1) Where to charge Evaluation costs;
- 2) How to allocate investment earnings;
- 3) Re-defining reasonable expected increases for administrative costs;
- 4) How to handle staff pay raises, if any provided; and,
- 5) Re-examining the impact on sustainability of the decisions and the FY 2010 proposed budget.

The following information is a summary by page number of the budget information that follows. In addition, the power point presentation that will be used to present the budget is behind the following tab.

Pages 5 and 6 show that FTF total assets are \$262.64 million as of August 31, 2008. Cash and investments make up all but \$1.55 million of the total. The remainder is plant and equipment purchased since the agency start up. There are no long term liabilities, while commitments for the short term (this fiscal year) amount to \$2.47 million.

On page 7 you will find that cash is expected to grow from \$236.57 million as of June 30, 2008, to \$377.38 million by June 30, 2009. The bulk of the cash on hand will be in the Programs Fund.

The Statement of Receipts and Expenditures on page 8 shows that FTF expects total revenues of \$173.94 million in FY 2010, slightly higher than the \$173.57 million estimated for this fiscal year. The reason for the increase is the large balances on hand that will generate additional investment earnings in FY2010, even as tobacco tax revenues are anticipated to decline slightly. The taxes and investment earnings are distributed 90% to programs and 10% to administration, as provided by statute. The expenditures shown are staff recommendations for Regional Programs, Statewide Programs and Administrative spending for both FY 2009 and FY 2010. Net gain of revenues over expenditures is estimated to be \$16.50 million for FY 2010. In all likelihood, there will be some appropriated monies that may not get expended next fiscal year since regional funded grants will just be starting, so the ending balance may be higher than shown.

A Summary of the Fiscal 2010 budget proposal by revenue source and expenditure fund is shown on page 10. It also shows the expected ending balances at the end of the fiscal year in each of the funds (administration, statewide and regional), with the total balance estimated at \$393.88 million at the end of June, 2010. Again, not all the funded program dollars may get expended during the fiscal year, so balances may be higher than shown, particularly for the statewide and regional accounts. This budget is based on the starting point adopted by the Board in June, \$150 million. There are two variances from this. First, the administration budget is higher because of continued start-up costs, particularly for the automated systems development to manage grants and monitor program and financial impacts of FTF activities. Second, an additional amount has been added to regional funding to accommodate expected Evaluation costs. The implications of these decisions are shown in the Sustainability Analysis at the end of the presentation.

Specifics for the State funding portion of the FY 2010 proposed budget are shown on page 11, along with a comparison of the amounts of statewide funding either adopted or expected during the remainder of FY 2009. Quality First, Health Consultants, TEACH, Parent Kits, Communications and Competitive Grants are all funded as previously adopted by the Board. In addition, monies are set aside that are recommendations of staff for Early Intervention and Information Access, plus a \$1.1 million set aside for any additional statewide funding that might be considered later.

Regional funding recommendations are shown on page 12. The amounts recommended for FY 2010 reflect the regions' share of the \$150 million base starting point (\$121.5 million), plus additional money for the Evaluation of early childhood outcomes by the university consortium. Monies are also recommended to be appropriated by the Board for start of the Evaluation baseline this fiscal year.

The Administration funding on page 13 reflects a reduction from the current year's budget (\$16,698,521), but still includes some onetime costs to complete the grants and information management system. Previously we had recommended that the administration budget not grow by more than 1% annually, but some mandated increases arose this year from the State budget offices that cause us to reconsider how we estimate future budget growth. In particular, the employee related expense for health, dental and life insurance increased by 32.55%, with an added cost of nearly \$350,000 for FY 2010, or about 2% of our estimated on-going expenditures. As a result, we are asking the Board to allow a 3% annual adjustment for planning purposes for the Administration Budget. Each annual budget will still be brought back to the Board for adoption and must be justified, but the 3% is used to determine the effect on sustainability. Also in the FY 2010 budget are 3 additional staff persons, with the growth being in Evaluation, Program and Business Services and Administrative Services. When the one-time costs are removed from the FY 2010 budget, the "annualized amount is \$15.38 million, as shown on page 14.

The last four tables are a reexamination of the sustainability analysis done earlier this year, based on the revenue and expenditure estimates and proposals shown in the FY 2010 budget. The chart on page 15 shows that, given the estimates for total revenues and expenditures, FTF would be able to sustain all early childhood funding through FY 2020. That assumes:

- 1) 4% annual growth for program spending
- 2) 3% annual growth for administration spending
- 3) 1.4% average annual decline in tobacco revenues
- 4) 3.5% average annual yield on investments
- 5) Distribution of investment earnings according to how tobacco revenues are distributed

Investment earnings have been distributed by FTF staff each month the same way as tobacco revenue, i.e. 10% to administration and 90% to programs. Auditors conducting our annual audit for last fiscal year indicated that the statutes actually mandate interest be distributed to Administration and Programs based on the share of the total invested funds. To do that would shift more investment earnings to Administration and less to Programs. Staff recommendation is that the Board adopt a policy that would shift interest earnings more into Programs by continuing our current practice.

The table on page 16 reflects the Administrative share of total costs each year from FY 2010 through FY2020. Again, this assumes the 3% annual growth in administration expenditures. This does not reflect any added costs for staff pay raises, although some years there may be savings or less rapid growth in other expenses that would provide some funds for pay raises within the 3% allowance. The staff

recommendation is that pay raises be considered at the following May or June meeting of the Board as a possible amendment to the budget adopted in October. This would allow more time to assess the financial condition as well as determine what pay raises are being provided state employees in general.

The source for funding Evaluation expenditures has not been determined as yet. In looking at the sustainability spreadsheets, at the end of FY2020, there are funds remaining for administrative spending and regional program spending, but a shortfall in statewide funded spending. Therefore, Evaluation should be funded out of Administration or Regional Programs funds. The last two charts on pages 17 and 18 compare these alternatives. The first one shows Evaluation funding coming from Regional Funds and indicates that shortfalls exist for both Regions and Statewide funding as of 2020, but with enough funds in the Administration Fund to cover the shortfalls. The second chart show that taking the Evaluation funds from the Administration account places administration funding in a shortfall position for FY 2020, with the balance of funds in the Regional Funds Account. Unfortunately, without sufficient money to operate in FY 2020, regional programs could not operate either. Money can be moved from Administration to Programs, but not the other way. It is the staff recommendation that Evaluation funding be provided from Regional Funds to maximize flexibility in operating all aspects of FTF.



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Statement of Assets and Liabilities at August 31, 2008

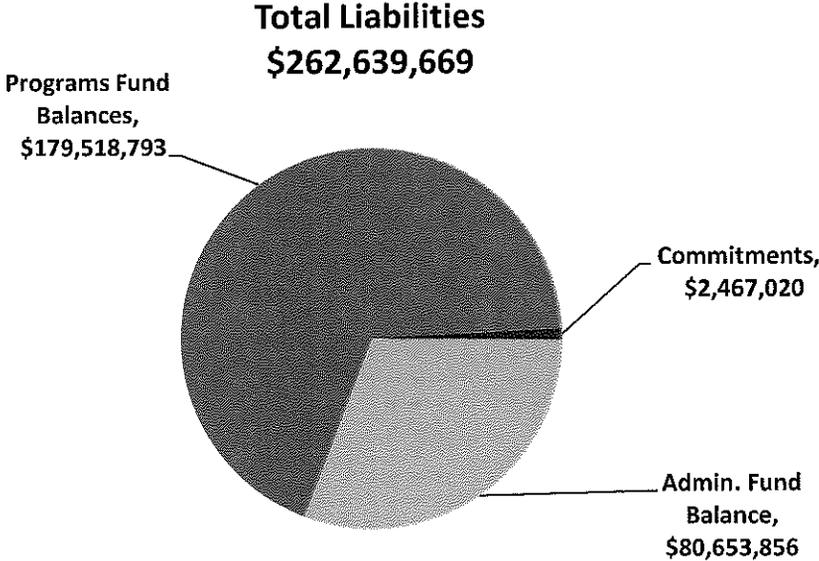
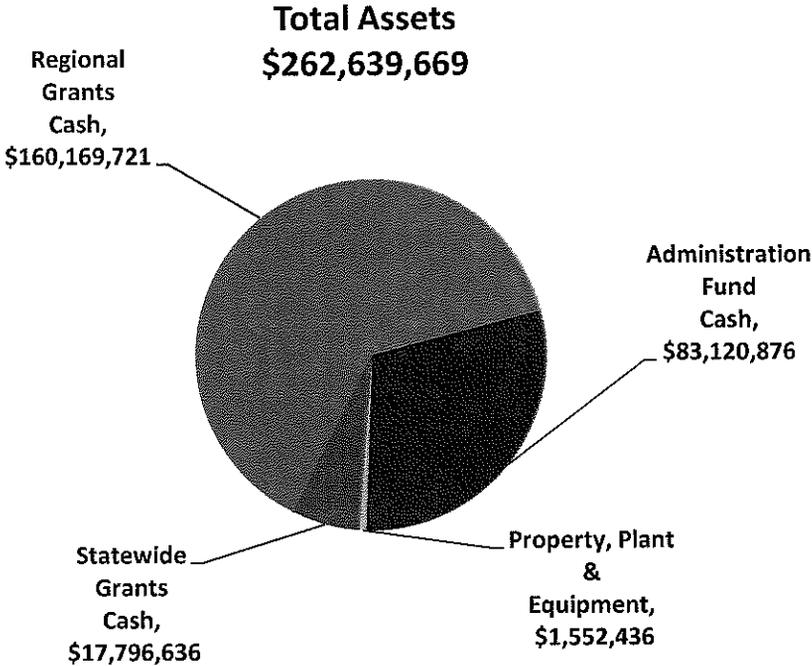
**UNAUDITED
DRAFT**

	PROGRAMS 90%	ADMINISTRATION 10%	FEDERAL GRANTS	PRIVATE GIFTS	TOTAL
ASSETS					
Cash & Investments on Hand					
Statewide Grants- 10%	\$17,796,636		0	0	
Regional Grants- 90%	160,169,721		0	0	
Total Cash Available @ 8/31/08	\$177,966,357	\$83,120,876	\$0	\$0	\$261,087,233
Receivables					
Federal Grants Receivable					
State & Local Grants Receivable					
Tax Revenue Receivable					
Investment Income Receivable					
Private Gifts Receivable					
Property, Plant and Equipment	\$1,552,436	\$0	\$0	\$0	\$1,552,436
TOTAL ASSETS	\$179,518,793	\$83,120,876	\$0	\$0	\$262,639,669
COMMITMENTS (Liabilities)	\$0	\$2,467,020	\$0	\$0	\$2,467,020
Reserves	\$0	\$0	\$0	\$0	\$0
FUND BALANCE @ 8/31/08	\$179,518,793	\$80,653,856	\$0	\$0	\$260,172,649
TOTAL LIABILITIES & RESERVES	\$179,518,793	\$83,120,876	\$0	\$0	\$262,639,669

Note: Amounts rounded to nearest dollar

Assets & Liabilities

As of August 31, 2008





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FY 2009 Cash Projection Schedule

9/15/08

UNAUDITED

	PROGRAMS 90%	ADMINISTRATION 10%	FEDERAL GRANTS	PRIVATE GIFTS	TOTAL
Cash Balance @ 6/30/08	\$153,814,657	\$82,751,347	\$0	\$0	\$236,566,004
Add: Projected FY 2009 Cash Inflows					
Luxury Tobacco tax receipts	146,657,346	16,295,260	0	0	162,952,606
Investment Income	9,503,331	1,055,926	0	0	10,559,257
Sub-total State Cash Inflows	\$156,160,677	\$17,351,186	\$0	\$0	\$173,511,863
Federal Grants			\$60,621		\$60,621
Total Inflows	\$156,160,677	\$17,351,186	\$60,621	\$0	\$173,572,484
Less: Projected FY 2009 Cash Outflows					
Administration	\$0	\$16,698,521	\$0	\$0	\$16,698,521
Statewide Grants	11,000,000	0	0	0	11,000,000
Regional Grants	5,000,000	0	0	0	5,000,000
Sub-total State Cash Outflows	\$16,000,000	\$16,698,521	\$0	\$0	\$32,698,521
Federal Grants			60,621		60,621
Total Outflows	16,000,000	16,698,521	60,621	0	32,759,142
Projected Cash Balances @ 6/30/09	\$293,975,334	\$83,404,012	\$0	\$0	\$377,379,346

Note: Amounts rounded to nearest dollar



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STATEMENT OF RECEIPTS AND EXPENDITURES

UNAUDITED DRAFT

Amounts rounded to nearest dollar

	FY 2008 ACTUAL	FY 2009 YTD THRU 8/31/08	FY 2009 BUDGETED	FY 2010 BUDGET
RECEIPTS(Revenue)				
Tobacco Luxury Tax				
Administration	\$16,480,511	\$2,633,231	\$16,295,261	\$16,067,127
Programs	148,324,601	23,699,079	146,657,345	144,604,143
Total Tobacco Luxury Tax	\$164,805,112	\$26,332,310	\$162,952,606	\$160,671,270
Investment Income				
Administration	\$614,307	\$50,291	\$1,055,926	\$1,326,493
Programs	5,528,763	452,621	9,503,331	11,938,438
Total Investment Income	\$6,143,070	\$502,912	\$10,559,257	\$13,264,931
Federal Grants (Notes 1 & 2)	\$75,935	\$0	\$60,621	\$0
Other Grants: State & Local	0	0	0	0
Private Gifts	0	0	0	0
TOTAL RECEIPTS	\$171,024,117	\$26,835,222	\$173,572,484	\$173,936,201
EXPENDITURES				
Administrative Costs	\$8,858,170	\$2,313,993	\$16,698,521	\$15,933,920
Regional Councils	0	0		
Regional Grants (Note 3)	0	0	5,000,000	127,000,000
Statewide Grants	0	0	11,000,000	14,500,000
Sub-total	\$8,858,170	\$2,313,993	\$32,698,521	\$157,433,920
Federal Grants (Notes 1 & 2)	75,935	0	60,621	0
TOTAL EXPENDITURES	\$8,934,105	\$2,313,993	\$32,759,142	\$157,433,920
SURPLUS (DEFICIT)*	\$162,090,012	\$24,521,229	\$140,813,342	\$16,502,281

* Fund balances are used to cover deficits.

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NOTES

Note 1.

Received via Pass Through from the Arizona Department of Health Services
Federal Fund Source: U.S. Department of Health and Human Services, Maternal & Child Health Bureau
Grant Title: State Early Childhood Comprehensive Systems Grant (SECCS)
Total Award: \$136,556.27
Expended in SFY 08: \$75,934.96
Expected to be received and expended in FY 2009 is the remaining \$60,621.31.

Note 2

The following Federal grant has been applied for but not yet awarded. This grant is not included in the schedule above: Direct Federal Grant Application
Federal Fund Source: U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research & Evaluation
Grant Title: Child Care State Research Capacity Cooperative Agreements
Total Application: \$650,000
If awarded, total estimated receipts/expenditures will be \$200,000 in FY 2009, \$250,000 in FY 2010, and \$200,000 in FY 2011.

Note 3

\$5 million is included in the FY 2009 expenditures for regional grants for "Big E" evaluations.



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FY 2010 Budget* Summary

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	ADMINISTRATION 10%	STATEWIDE 9%	REGIONAL 81%	TOTAL
Estimated 6/30/09 Balance*	\$83,404,012	\$19,997,534	\$273,977,800	\$377,379,346
Luxury Tobacco Tax	16,067,127	14,460,414	130,143,729	160,671,270
Investment Revenue	1,326,493	1,193,844	10,744,594	13,264,931
Total	\$100,797,632	\$35,651,792	\$414,866,123	\$551,315,547
Less: Projected Expenditures	15,933,920	14,500,000	127,000,000	157,433,920
Estimated Balances @ 6/30/10*	\$84,863,712	\$21,151,792	\$287,866,123	\$393,881,627

Note: Amounts rounded to nearest dollar

*Excluding Federal funds and Private Gifts



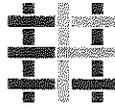
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FY 2010 Budget Statewide Funding (Millions of Dollars)

	<u>FY 2009</u>	<u>FY 2010</u>
QIRS	\$4.5	\$6.0
Health Consultants	0.6	1.2
TEACH	0.4	0.5
Parent kits	0.5	0.7
Communications	2.0	2.0
Early Intervention*	0.8	0.8
Information Access*	0.1	0.4
Competitive Grants	1.0	2.0
Other (TBD)*	<u>1.1</u>	<u>0.9</u>
Total Funding :	<u><u>\$11.0</u></u>	<u><u>\$14.5</u></u>

*Monies are set aside for possible Board actions later.



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FY 2010 Budget Regional Funding (Millions of Dollars)

	<u>FY'09</u>	<u>FY'10</u>
Regional Allocation		
0-5	---	\$42.6 m
Poverty	---	<u>48.6 m</u>
Total	---	\$91.2 m
Discretionary:		
Distribution	---	\$30.3 m
Evaluation	<u>\$5.0 m</u>	<u>\$5.5 m</u>
Grand Total	<u>\$5.0 m</u>	<u>\$127.0 m</u>

FY 2010 ADMINISTRATION BUDGET

AZ Early Childhood Development and Health Board - FTE

Financial Comparison

Fund 2543 -- Admin. Costs Account

	FY 2009 FTE T S	FY 2009 Budget Approved	FY 2010 FTE T S	FY 2010 Budget Draft
Personal Services	140.5	\$7,989,041	143.5	\$8,713,775
ERE's	**	\$2,321,238	**	\$2,773,793
Professional Services		\$2,638,266	***	\$1,207,698
Travel In-State		\$842,551		\$748,620
Travel Out-of-State		\$119,036		\$115,901
Other Operating Expenditures / & Food		\$2,092,516		\$2,109,056
Capital & Non-Capital Equipment		\$695,873		\$265,077
Totals		\$16,698,521		\$15,998,920

* 97 FTE's by year-end;

** increase in number of FTE's;

*** there is an increase in the ERE rates for ECDH for FY 2010 and FY 2011 (provided to ECDH by the OSPB) --
Rates for FY 2010 and FY

2011 =

Marginal ERE Rate = 0.191550498806653

Health/Dental/Life per FTE = 7.6836 per 1000

Rates for FY 2008 and FY

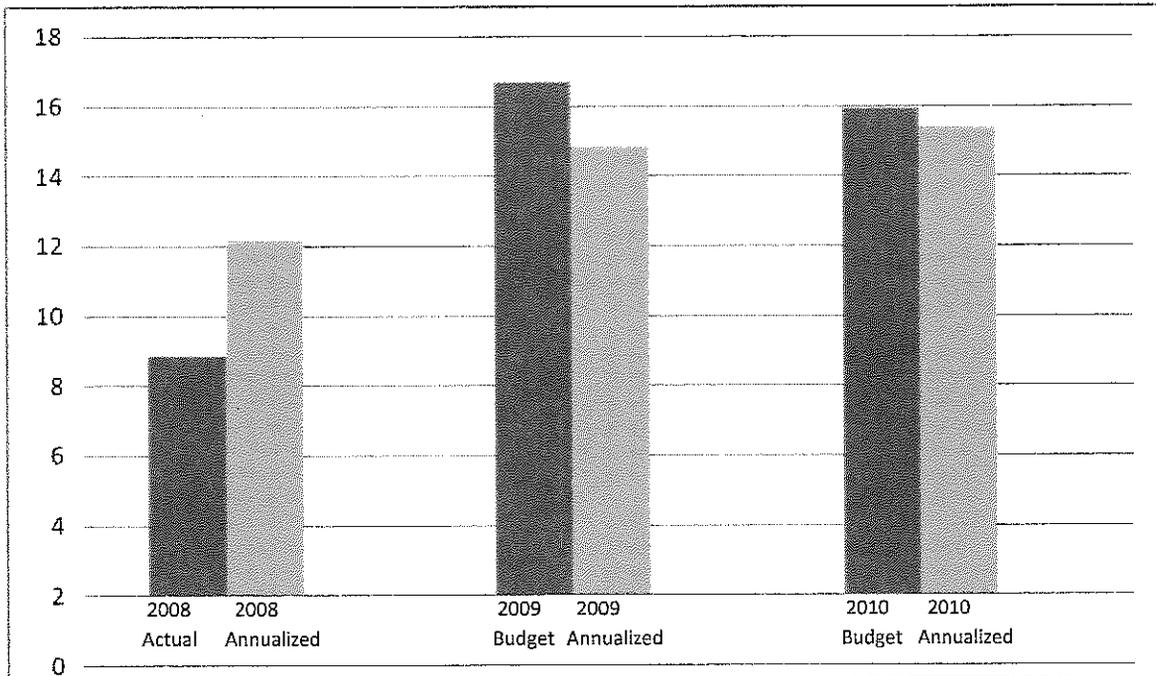
2009 =

Marginal ERE Rate = 0.1943

Health/Dental/Life per FTE = 5.7968 per 1000

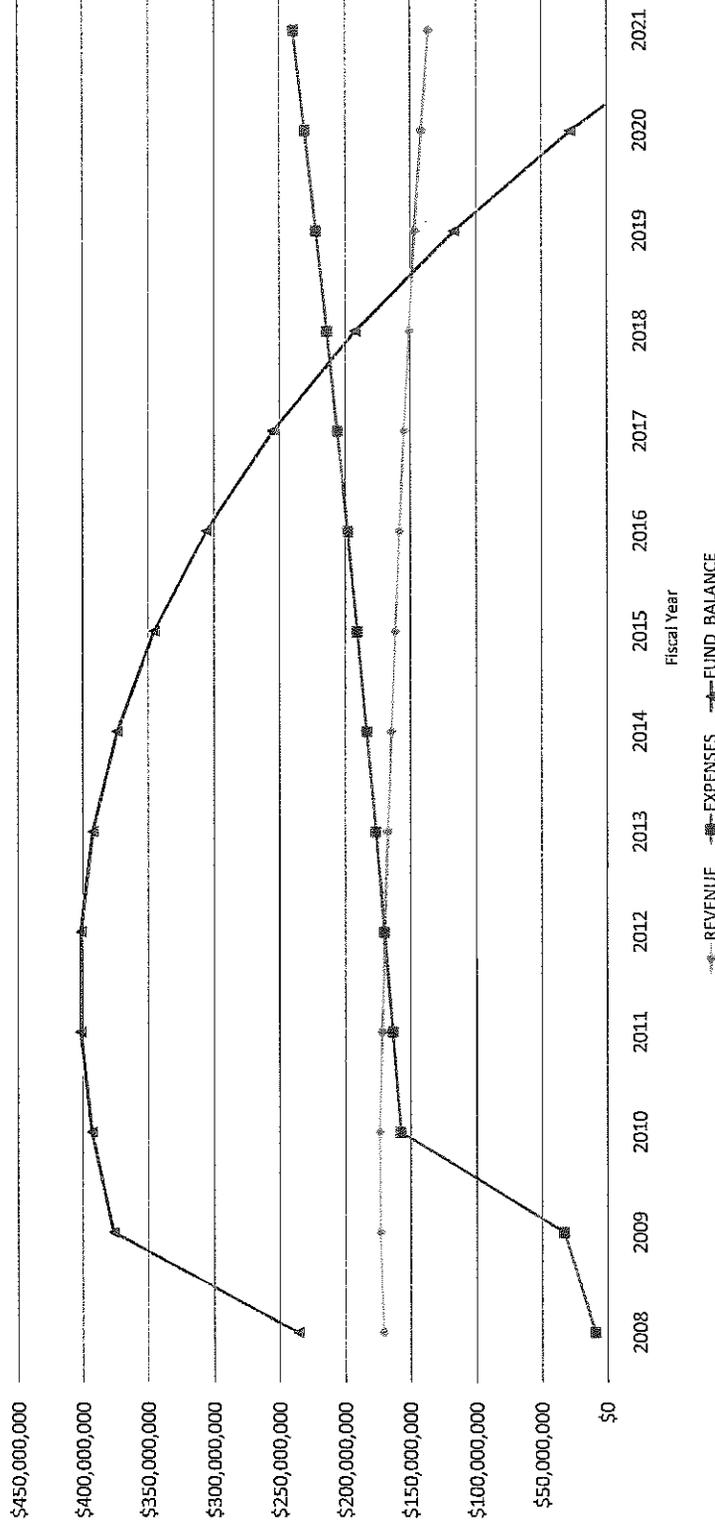
Administrative Budget Comparison

FY 2008 – FY 2010

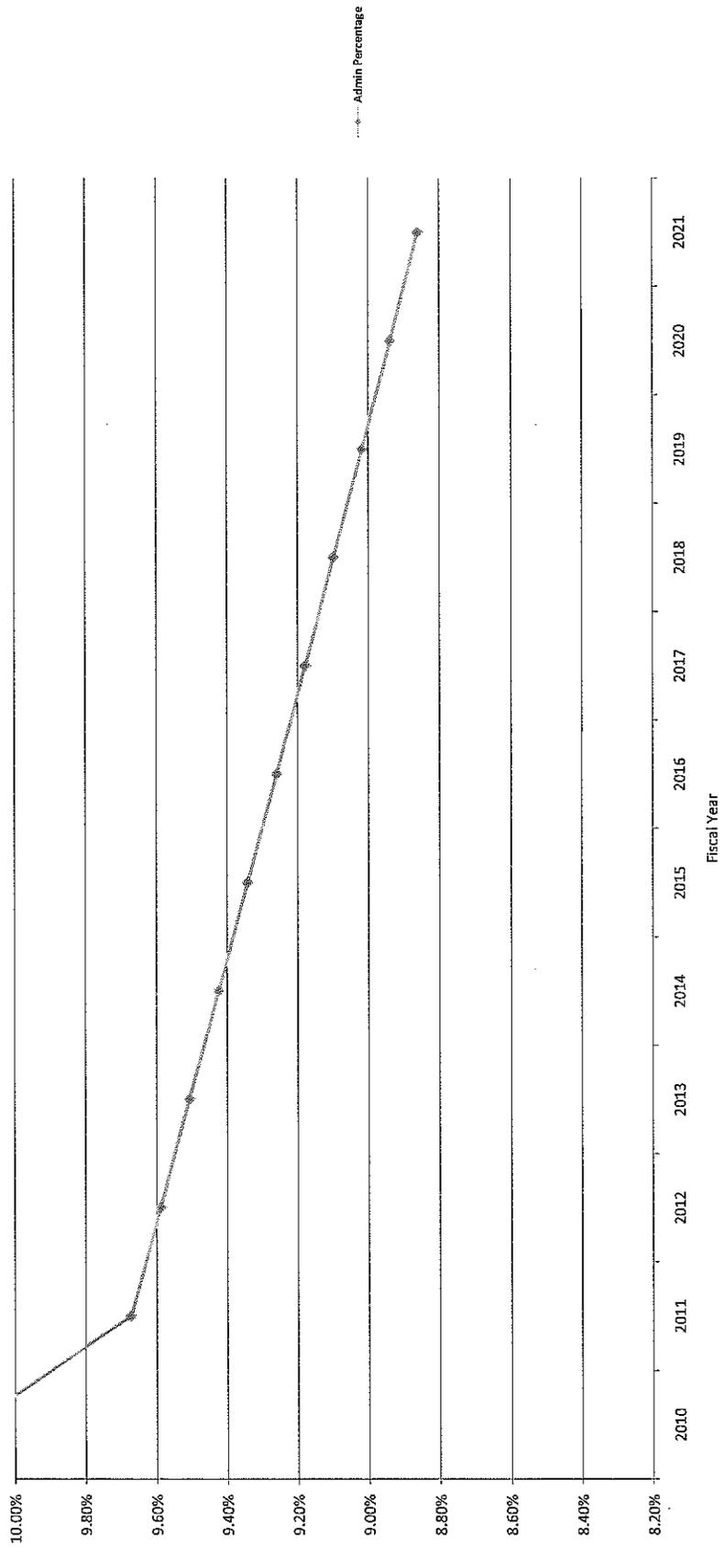


2008 Actual	\$8.86 million	97.0 FTE's
<i>2008 Annualized</i>	<i>12.13</i> "	
2009 Budget	16.7 "	140.5 FTE's
<i>2009 Annualized</i>	<i>14.81</i> "	
2010 Budget	15.93 "	143.5 FTE's
<i>2010 Annualized</i>	<i>15.38</i> "	

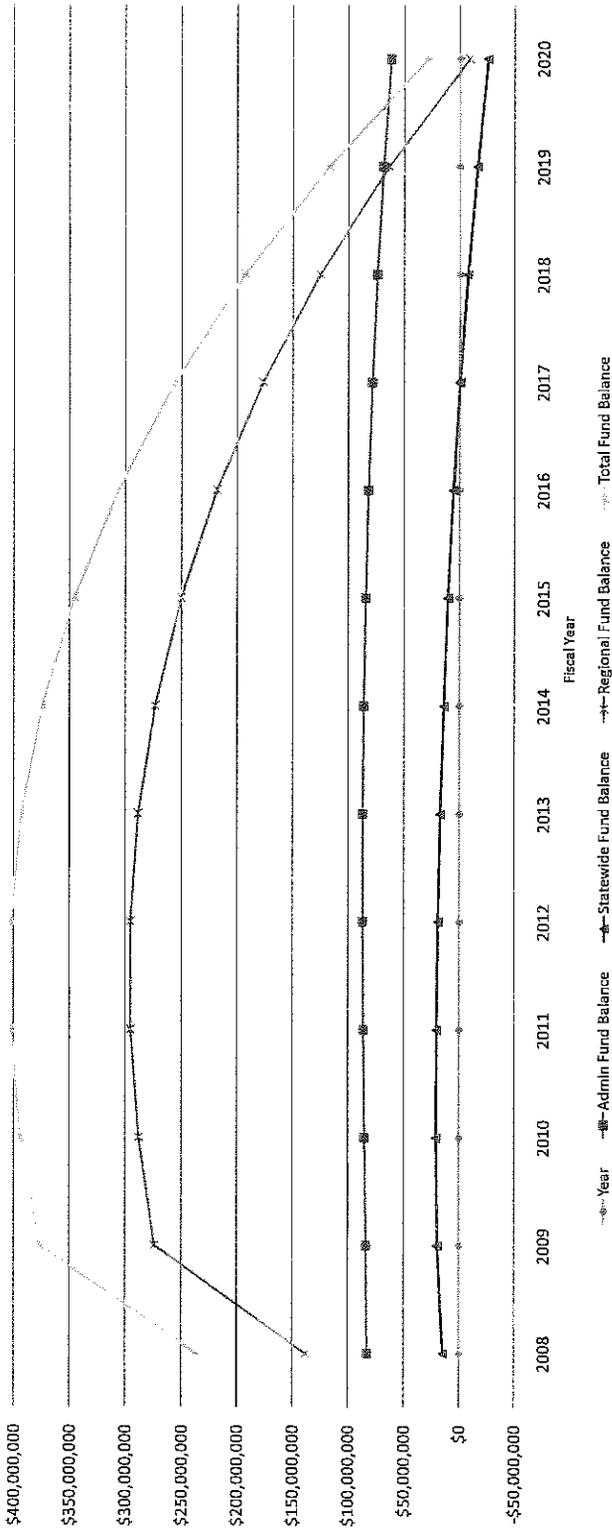
**\$150M EXPENDITURES BASELINE, 1.4% ANNUAL DECLINE,
4% PROGRAM INCREASE/POPULATION GROWTH**



Administrative Costs as a Percentage of Total Costs FY 2009 - 2021



FUND BALANCES BY CATEGORY
 External Evaluation from Regional Discretionary Funds
 FY 2008 - 2021



FUND BALANCES BY CATEGORY
External Evaluation from Administrative Funds
FY 2008 - 2021

