Proposition 1D

Budget Act of 2008. California Children and Families Act: Use of Funds: Services for Children.

Background

First 5 Programs

Proposition 10, otherwise known as the California Children and Families Act, was enacted by the voters of California in the November 1998 election. The initiative created the California Children and Families Program (now commonly known as the First 5 program) to expand early development programs for children up to age five.

First 5 Programs Funded With Tobacco Taxes. The First 5 program is funded by revenues from a state excise tax on cigarettes (50 cents per pack) and other tobacco products. (An additional 37 cents per pack in state excise taxes is imposed for other state purposes unrelated to First 5.) Revenues generated by the First 5 tax are deposited into the California Children and Families Trust Fund and are appropriated on an ongoing basis for First 5 programs. Thus, none of these funds are subject to appropriation by the Legislature. Proposition 10 requires that these funds be added to, rather than replace, the funding for existing programs.

We estimate that Proposition 10 revenues in 2009-10 will be about $500 million. Based on our analysis of trends in tobacco consumption, we estimate Proposition 10 revenues will decrease by about 3 percent annually in the future.

State Commission. Proposition 10 established a state commission—the California Children and Families Commission—that is responsible for state-level administration of the early childhood development program. Twenty percent of available Proposition 10 revenues is allocated to the state commission, to be spent for the purposes detailed in Figure 1. The state commission funds many programs, including:

- ***School Readiness***, which targets children up to age five and their families in schools with a low academic performance score.
- ***Health Access***, which provides outreach and enrollment services for existing state-supported health programs, as well as expanded coverage for those children who lack health insurance but do not qualify for state-supported health programs.
- ***Information Kit for New Parents***, which provides expecting and new parents with a resource kit to improve their parenting skills.

Figure 1

Allocation of Proposition 10 Revenues to the State Commission

Purpose	Allocation
Mass media communications	6%
Education	5
Child care	3
Research	3
Administration	1
General program purposes	2
Total Allocation	**20%**

County Commissions. The remaining 80 percent of Proposition 10 revenues is allocated annually to 58 county commissions (consisting of five to nine members appointed by the county board of supervisors). The local commissions implement programs in accordance with local plans to support and improve early childhood development in their county. While the programs vary from county to county, each local commission provides services in the following three areas:

- ***Family Functioning***, including adult education for parents; behavioral, substance abuse, and mental health services; and the provision of basic family needs (food, clothing, and housing).
- ***Child Development***, including preschool for three- and four-year olds, kindergarten transition services, and targeted intensive intervention for children identified with special needs.
- ***Child Health***, including health coverage and access services, home visitations for newborns, and prenatal care.

Unspent Fund Balances. Proposition 10 provides that any revenues to the state and local commissions not spent during a fiscal year are carried over for use in subsequent fiscal years. As of June 30, 2008, the local commissions had a total of about $2.1 billion in unspent funds, and the state commission had about $400 million in unspent funds.

Auditing and Reporting Requirements. The state and local commissions conduct independent annual audits of their expenditures and issue reports on these audits. Local commissions must submit these financial reports to the state commission, while the state commission must submit its reports to the Governor, the Legislature, and each county commission.

Other State Health and Human Services Programs for Children

The state currently administers a variety of health and human services programs that serve children, many of whom are age five or younger. Examples of these state-supported health and human services programs include foster care, health coverage services like Medi-Cal and Healthy Families, state preschool, and child care. These programs currently are largely operated separately of the First 5 programs and are supported by the state General Fund.

Proposal

This measure temporarily redirects a significant portion of Proposition 10 funds to achieve budgetary savings and makes permanent changes to state and local commission operations, as discussed below.

Temporary Redirections of Funding to State Programs for Children. This measure amends the California Children and Families Act to temporarily allow Proposition 10 revenues to be used to fund other state health and human services programs for children up to age five. In effect, these Proposition 10 revenues would be used to offset *existing* state General Fund costs, thereby achieving savings to help address the state's current budgetary problem. The measure achieves these state General Fund savings in two ways:

- By redirecting up to $340 million of available unspent reserves held by the state commission as of July 1, 2009.
- By temporarily redirecting a portion of future Proposition 10 revenues. Specifically, from 2009-10 through 2013-14, this measure would divert annually $268 million in Proposition 10 funds. Of the redirected funds, $54 million would come from state commission funds and $214 million from local commission funds. During these five years, the redirected funds would be subject to appropriation by the Legislature.

Permanent Changes. This measure makes various other changes:

- ***New Requirements for Distribution of Audits and Reports.*** The measure requires that the county commissions also submit their annual audits and reports of their expenditures to the county board of supervisors and the county auditor. In addition, it requires that each county auditor serve on the local First 5 commission.
- ***Changes in Allocation of State Commission Funds.*** This measure also amends the allocation requirements for the state commission's 20 percent of Proposition 10 revenues. Specifically, it deletes the allocation now provided for mass media communications (now 6 percent) and increases the allocation for general program purposes (from 2 percent to 8 percent). Under the measure, the state commission must also ensure that every county commission receives at least $400,000 each year.

- ***County Borrowing of First 5 Funds.*** Finally, it allows a county controller to borrow local commission funds for that county's general fund, unless the transfer would interfere with local commission activities. Any borrowed funds must be repaid with interest.

Fiscal Effects

The measure would have the following fiscal effects on state and local governments.

Reduction in Funding Available for Existing State and Local Commission Programs. This measure would reduce state commission funding by up to $340 million on a one-time basis in 2009-10 by redirecting the state commission's reserve funds. In addition, this measure would reduce funding for the state and local commissions by $268 million annually from 2009-10 through 2013-14.

State General Fund Savings. This measure would achieve state savings of up to $608 million in 2009-10 and $268 million annually from 2010-11 through 2013-14. This results from using a portion of Proposition 10 funds in place of state General Fund for state-supported health and human services programs for children up to age five.

Other Potential Fiscal Effects. The reduction in state and local First 5 commission funding could result in other costs to the state and local agencies (primarily counties and schools). This would occur to the extent that some children and families rely on other health and human services programs instead of those now provided under First 5. However, absent this measure, other budget reductions or revenue increases would be needed to address the state's severe fiscal problems. The fiscal effects of these alternative budget-balancing solutions on state and local programs and state revenues are unknown.