

**FIRST 5 SAN MATEO COUNTY  
 FINANCE AND ADMINISTRATION COMMITTEE MEETING**

**As authorized by Governor Newsom’s Executive Orders N-25-20 and N-29-20, dated March 12, 2020 and March 17, 2020 respectively, the meeting will be held via teleconferencing with members of the Commission attending from separate remote locations. The meeting will be held and live cast from the following location where members of the public shall have the right to observe and offer public comment:**

**DATE: Monday, June 14, 2021**

**TIME: 9:00 AM to 10:00 AM**

Join Zoom Meeting

**Online:**

<https://smcgov.zoom.us/j/99885307983?pwd=OGlxYm9aRk5DVVFsVFdhSm5YVllldz09>

**Phone:** +1 669 900 6833

Meeting ID: 998 8530 7983, Passcode: 299010

**This altered format is in observance of the recommendation by local officials that certain precautions be taken, including social distancing, to address the threat of COVID-19.**

**MEMBERS:** Rosanne Foust, Alexis Becerra, Pam Frisella

**STAFF:** Kitty Lopez, Khanh Chau

**AGENDA**

1.	Approval of the Finance and Administration Committee Agenda	Becerra
2.	Approval of the May 10, 2021 Finance and Administration Committee Meeting Minutes (See Attachment 2)	Becerra
3.	Update: Audit of the California Department of Tax and Fee Administration (CDTFA) (See Attachment 3)	Lopez / Chau
4.	Action: Review and Recommend Approval of F5SMC’s LTFP from FY 2020-21 through FY 2024-25 (FY2020-21 Update) (See Attachments 4, 4A, 4B, 4C)	Lopez/ Chau
5.	Verbal Discussion: <ul style="list-style-type: none"> <li>• Auditor for the audit services for the year ending 6.30.2021</li> <li>• First 5 Lease</li> </ul>	Lopez/ Chau

**Next Meeting: October 18, 2021**

**FIRST 5 SAN MATEO COUNTY  
FINANCE AND ADMINISTRATION COMMITTEE  
MEETING MINUTES**

**May 10, 2021**

- Commission Member: Rosanne Foust, Pam Frisella, Alexis Becerra
- Staff: Kitty Lopez, Khanh Chau
- Minutes: Khanh Chau

Commissioner Becerra chaired the meeting.

**1. Approval of the Finance and Administration Committee Meeting Agenda**

A Motion for Approval of the May 10, 2021 Finance and Administration Committee Meeting Agenda was made by Commissioner Frisella, seconded by Commissioner Foust. Unanimously approved.

**2. Approval of the Finance and Administration Committee Meeting Minutes**

A Motion for Approval of the February 8, 2021 Finance and Administration Committee Meeting Minutes was made by Commissioner Frisella, seconded by Commissioner Foust. Unanimously approved.

**3. Review of Budget Monitoring Report as of April 30, 2021**

Kitty Lopez briefly presented an overview of the Budget Monitoring Report as of April 30, 2021 comparing to 83% YTD Benchmark (Attachments 10A, 10B, 10C, 10D). YTD Total Revenue is 6% higher than YTD benchmark due to the inclusion of fiscal year Prop 56 Tax revenue and higher Interest revenue. YTD Total Appropriations is 30% below YTD Benchmark due to underspending across investment strategies in the first-year program executions as the new funding cycle began; pending planning and contracting of SPIP FY18-20 Carry Over in Children's Health & Development and Evaluation focus areas; delayed grant execution with no-cost extension in the Other Grants due to COVID 19. Projected Ending Fund balance of \$12.580 million or 133%, that represents a positive variance of 33% or \$3.156 million higher than the planned budget.

Committee members reviewed the Budget Monitoring Report as of April 30, 2021 and had no further questions.

**4. Review and Recommend Approval of F5SMC's Policies and Bylaws for FY2021-22**

Kitty Lopez cited that every year we need to review and approve Policies and Bylaws for the next fiscal year for compliance requirements. Kitty Lopez stated that per the Policy and Bylaws memo, we have 5 policies remain unchanged and two policies are amended: the Contract and Procurement policy and the Bylaws are amended for consistency with the amended Contract and Procurement Policy; and the Administrative Cost policy is amended to maximum 15% from 12%. These Policies and Bylaws changes are reflected in detail in the Policy and Bylaws memo.

Committee members asked what types of contract amounts that are below \$50,000 threshold and are under Executive Director's authority. Kitty Lopez responded that examples of those contracts are the audit services contract or consultant contracts. Committee members endorsed the Approval of F5SMC's Policies and Bylaws for FY2021-22.

A Motion for Recommend Approval of **F5SMC's Policies and Bylaws for FY2021-22** was made by Commissioner Foust, seconded by Commissioner Frisella. Unanimously approved.

**5. Review and Recommend Approval of F5SMC's FY 2021-22 Draft Budget and the Use of Ending Fund Balance (Reserves\*) to Fund F5SMC's FY 2021-22 Adopted Budget**

Kitty Lopez briefly stated background information of the proposed FY2021-22 Draft Budget: withdrawal Reserves to fund strategic plan; COVID-19 caused delayed program executions across the investment portfolio; and underspending SPIP FY18-20 Carry Over. Kitty Lopez restated Finance and Administration Committee endorsement of the implementation of the SPIP FY 2018-20 Carry Over in coordination within 3-year time frame of the new strategic plan FY 2020-23 at the February 8, 2021 Finance and Administration Committee Meeting.

Kitty Lopez walked through the Budget Assumptions and FY2021-22 Draft Budget Summary. Kitty Lopez cited that the FY2021-22 Draft Budget is developed based on the financial information available at the present time while waiting for new Tobacco Tax Revenue Projections to be released at the end of May 2021; actual program expenditures will become available after FY 2020-21 Year-End Closing. Kitty Lopez stated the FY2021-22 Draft Budget results in a budget deficit of \$1.6 M and we will continue to draw down the Reverses to fund the FY2021-22 Adopted Budget, per Commission knowledge and pre-approval Kitty Lopez cited the Budget Narratives and Budget worksheets are presented in conjunction with Budget memo.

Committee members reviewed the FY2021-22 Draft Budget and complemented the clarity of the Draft Budget and the usefulness of the Budget Narratives.

Committee members asked for an update of the State CT DFA audit. Kitty Lopez responded that the State CT DFA audit is pending and will update the Committee at the upcoming Finance meeting.

Committee members endorsed the approval of the FY2021-22 Draft Budget.

A Motion for Recommend Approval of F5SMC's FY 2021-22 Draft Budget and the Use of Ending Fund Balance (Reserves\*) to Fund F5SMC's FY 2021-22 Adopted Budget was made by Commissioner Foust, seconded by Commissioner Frisella. Unanimously approved.

**6. Discussion**

• **Auditor for the audit services for the year ending 6.30.2021:**

Kitty Lopez stated that every year we send out Request for Qualifications for the audit services to 3 audit firms, but only R.J. Ricciardi, (RJR) Inc. has submitted its audit proposal including a peer review letter. RJR received a fail peer review opinion for its peer review in 2019. Staff currently sent other RFQs for the audit services to other audit firms and contacted the Controller Office for further advice in this regard. RJR response letter to the CalCPAs Peer Review Committee outlining its firm's remedies to the findings is placed on file. RJR informed staff that its firm is requesting a new accelerated peer

review to be conducted in May 2021 with expected completion by the end of May. Staff will keep the Committee updated on this process at the next Finance and Administration Committee Meeting June 14, 2021.

- **Office Space**

Kitty Lopez stated that office lease will be expired end of October 2021, and we currently are in discussions with Borel Estate Company for options of moving to new and smaller office space or staying at the current office with cost saving offers. Committee members suggested 5 - year lease and negotiation of current space or new space starting at \$4/SQF given the current commercial office space trend in the region.

Commissioner Becerra adjourned the meeting at 9:56 AM.

**DATE:** June 14, 2021  
**TO:** First 5 San Mateo County Finance and Administration Committee  
**FROM:** Kitty Lopez, Executive Director  
**RE:** Update Audit of the California Department of Tax and Fee Administration (CDTFA)

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## **BACKGROUND**

The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56), passed by the voters in November 2016, increased the excise tax rate on cigarettes and electronic cigarettes (a \$2 increase to tobacco tax), effective April 1, 2017, and other tobacco products effective July 1, 2017

Before any revenue from Proposition 56 is disbursed for health care, it will be used to backfill the budget losses of tobacco education, cancer, etc.

First 5 California Association hired HDL Company, an audit firm, to audit the California Department of Tax and Fee Administration (CDTFA) to get insights and information about CDTFA's administrative cost charges to Tobacco Tax Revenue collections, Prop 56 backfill calculations, allocation, and projections.

## **UPDATE AUDIT OF CDTFA**

Final audit results are still pending. The audit of the CDTFA is ongoing.

Information below is a brief summary-to-date of two PowerPoint presentations presented by HDL to First 5 California Association in November 2020 and in February 2021.

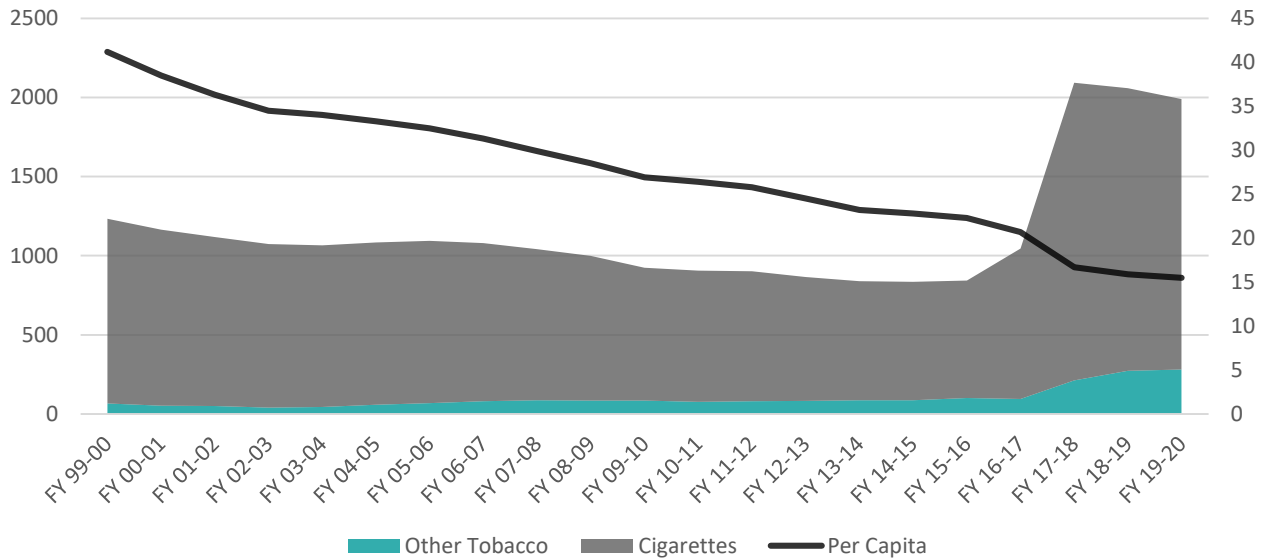
### **1. Administrative Cost**

- Administrative costs for each fund (Prop 10 and Prop 56) are calculated on an "as-added" basis. Each fund is only charged a proportion of the admin costs that are added after the fund is established. The earliest funds therefore take on the majority of the cost. The later funds contribute very little at first, then more as time progresses.
- Cumulative admin cost rates over the past 5 years for Prop 10 and Prop 56 are 2.95% and 0.03% respectively.

### **2. Backfill Insights**

- The backfill is calculated using a complex econometric model, more or less like a "black box" process (feed the data in and get results).
- The backfill is based partially on historic data; sudden large shifts (such as those caused by Prop 56) can cause anomalous results that even out over time.
- The auditor's analysis of the results shows an elasticity factor that does not come close to the 0.5 that the CDTFA uses for calculating OTP backfill.

### 3. Tobacco tax revenue trends in California



- CDTFA's estimates for e-cigarette consumption (the grey area) is rapidly increasing (from \$49M in FY17-18 to \$142M in FY19-20).
- Other Tobacco (blue area) seems to be holding steady or slightly increasing in terms of revenue.
- Taking population and inflation into account, this graph shows a slow decrease in per capita usage

### 4. Prop 56 audit results

- Auditor had issues with CDTFA's methods of calculating wholesale prices used in their Other Tobacco Product OTP equivalency tax rate.
- Taking into account non-premium cigarette prices should bring the wholesale price down, resulting in a higher tax rate calculation.
- Auditor estimates about \$100M in total additional revenue – approximately \$20M to Prop 10

### 5. Next Steps

- More research into econometric model to establish input factors for future projections
- Produce fill-in spreadsheets to track revenue year-to-date and compare to prior years
- Finalize reconciliation of admin costs

**DATE:** June 14, 2021

**TO:** First 5 San Mateo County Finance and Administration Committee

**FROM:** Kitty Lopez, Executive Director

**RE:** Review and Recommend Approval of F5SMC's Long-Term Financial Plan (LTFP) from FY 2020-21 through FY 2024-25 (FY20/21 Update)

## ACTION REQUESTED

**Review and Recommend Approval of F5SMC's Long-Term Financial Plan (LTFP) from FY 2020-21 through FY 2024-25 (FY20/21 Update)**

## KEY MESSAGES

Long-Term Financial Plan (LTFP) is a snapshot in time with financial information that continues to change and evolve. The Commission has the opportunity to review and approve updated LTFP every year.

## LTFP SUMMARY (FY20/21 Update)

	FY20-21 Revised Budget	FY21-22 Budget	FY22-23 Projection	FY23-24 Projection	FY24-25 Projection
<b>Beginning Fund Balance</b>	<b>11,610</b>	<b>9,829</b>	<b>8,158</b>	<b>7,382</b>	<b>6,222</b>
A+B. Tobacco Tax & Interest Revenues	5,613	5,202	4,842	4,675	4,516
C. Other Grants	1,294	1,058	965	600	600
<b>Total Revenues</b>	<b>6,907</b>	<b>6,260</b>	<b>5,807</b>	<b>5,275</b>	<b>5,116</b>
<b>Total Available Fund</b>	<b>18,518</b>	<b>16,089</b>	<b>13,964</b>	<b>12,657</b>	<b>11,339</b>
<b>Appropriations</b>					
D. Strategic Plan Investment (SPIPs)	5,435	4,900	3,780	3,780	3,780
E. Other Grants	1,263	954	712	500	500
F+G+H Operations	1,991	2,077	2,090	2,155	2,209
<b>Total Appropriations</b>	<b>8,689</b>	<b>7,931</b>	<b>6,582</b>	<b>6,435</b>	<b>6,489</b>
<b>Ending Fund Balance Before Restricted Fund</b>	<b>9,829</b>	<b>8,158</b>	<b>7,382</b>	<b>6,222</b>	<b>4,850</b>
Restricted Fund (Pension Liability and Operational Reserves)	2,000	2,000	2,000	2,000	2,000
<b>Ending Fund Balance After Restricted Fund</b>	<b>7,829</b>	<b>6,158</b>	<b>5,382</b>	<b>4,222</b>	<b>2,850</b>

*\*Please read the LTFP Memo (Attachment 4) in conjunction with the LTFP Narrative and LTFP Spreadsheets (Attachments 4A, 4B, 4C)*

## **FISCAL IMPACT**

- Admin Cost Rate: projected 10% for period FY 2020-22 and 14% for period FY 2022-25.
- At the end of FY 2024-25, Projected Ending Fund Balance after Pension Liability and Operational Reserves is \$2.850M which is approximate to 6-month equivalent of FY 2025 Fiscal Revenue.
- FY 2021-22: Projected Budget Deficit of \$1.671M in FY 2021-22 with draw down of Ending Fund Balance (Reserves\*) to fund higher community investments, per the current Strategic Plan Implementation Plan (SPIP).
- FY 2020-25: Projected Budget Deficit of \$6.760M over the 5-year period. We will continue to draw down funds to cover this annual deficit from the Ending Fund Balance (Reserves\*)
- It is anticipated that from FY 2025 forward, Total Appropriations would be in line with Total Fiscal Revenues.

## **RECOMMENDATION**

**Review and Recommend Approval of F5SMC's Long-Term Financial Plan (LTFP) from FY 2020-21 through FY 2024-25 (FY20/21 Update)**



**LTFP FROM FY 2020-21 THROUGH FY 2024-25 (FY20/21 Update) - NARRATIVES**

\*Please read the LTFP Memo (Attachment 4) in conjunction with the LTFP Narratives (Attachment 4A) and LTFP Spreadsheet (Attachments 4B, 4C)

F5SMC's LTFP from FY 2020-21 through FY 2024-25 (FY20/21 Update) are presented in **Attachments 4A, 4B and 4C** and are updated with:

- (1) F5CA Tobacco Tax Revenue Projections FY 2020-25, released May 26, 2020. Annual Tobacco Tax Revenue Projections has not been released at this time;
- (2) FY 2019-20 Audited Financial Information;
- (3) FY 2020-21 Revised Budget and FY 2021-22 Adopted Budget
- (4) Funding Allocations of New Strategic Plan Implementation Plan (SPIP) FY 2020-25, which was approved during the new strategic planning process.
- (5) Delayed planning and execution of community investment across the board due to COVID 19.

**I. REVENUES****A. Interest Revenue:**

- Interest Revenue is projected 1% Interest Earning Rate on the Beginning Fund Balance.

**B. Tobacco Tax Revenue**

- Tobacco Tax Revenues include Prop 10 and Prop 56 \*Tax Revenues which are allocated to F5 Commissions based on actual birth rate in each county.
- F5CA Tobacco Tax Revenue Projections FY 2020-25, released May 26, 2020, reflects the average declining rate of 2.89%, which is slightly lower than 2.92% of previous year projections; adds \$716K more Tobacco Tax Revenue during period FY 2019-23.

**C. Other Grant Revenue:** includes new grants and repeating grant opportunities that produce steady additional Other Grants Revenue stream:

- FY2020-23: Total executed Other Grants of \$3.317M (or average \$1.1M of additional Other Grant Revenues per year):
  - ✓ \$1.200M F5CA's IMPACT Grant;
  - ✓ \$200K F5CA Home Visiting Grant;
  - ✓ \$150K David Lucile Packard Foundation's Help Me Grow Grant;
  - ✓ \$35K Peninsula Healthcare District's Help Me Grow Call Center Grant;
  - ✓ \$50K Peninsula Healthcare District's Help Me Grow Call Center Grant FY2021(new);
  - ✓ \$1.190M Sequoia Healthcare District's Special Needs and Trauma Informed Grants
  - ✓ \$50K Aurrera Health Group ACEs Aware.
  - ✓ \$300K San Mateo County Behavioral and Recovery Services Division's Mental Health Services Act MHSA – Prop 63: Mental Health programs
  - ✓ \$130K San Mateo County Human Services Agency Build Up Kids for San Mateo
- FY 2023-25: projected \$600K Other Grant Revenues each fiscal year. This projection is a conservative estimate of historical trend, trusted relationships with existing funders and leverage funding opportunities with F5SMC's strategic plan.

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*\*The Proposition 56 taxes reduce tax-paid tobacco purchases (hereafter, "consumption"), resulting in lower revenue for other tobacco tax funds. In the first revenue allocation step, some Proposition 56 revenues replace—or "backfill"—these revenue losses. <https://lao.ca.gov/Publications/Report/3939>*

## II. PROGRAM APPROPRIATIONS

**D1. Strategic Plan Investment SPIP FY 2020-23:** Cycle 4 investments are \$3.780M each fiscal year; said investment level was previously approved by the Commission during the strategic planning process in 2017 and 2018.

**D2. SPIP FY 2018-20 Carry-Over:** Continue implementation SPIP FY 2018-20 Carry-over fund in coordination within 3-year time frame of SPIP FY 2020-23

### E. Other Grants Appropriations

- FY 2020-23: Include execution of existing and newly awarded Other Grants:
  - ✓ \$1.050M F5CA IMPACT Grant;
  - ✓ \$174K F5CA Home Visiting Grant;
  - ✓ \$116K David Lucile Packard Foundation's Help Me Grow Grant;
  - ✓ \$27K Peninsula Healthcare District's Help Me Grow Call Center Grant;
  - ✓ \$42K Peninsula Healthcare District's Help Me Grow Call Center Grant FY2021 (new);
  - ✓ \$1.086M Sequoia Healthcare District's Special Needs and Trauma Informed Grants;
  - ✓ \$35K Aurrera Health Group ACEs Aware;
  - ✓ \$300K San Mateo County Behavioral and Recovery Services Division's Mental Health Services Act MHSA – Prop 63: Mental Health programs;
  - ✓ \$130K San Mateo County Human Services Agency Build Up Kids for San Mateo.
- FY 2023-25: Include projected \$500K/year pass-through contracts from projected Other Grant Revenue of \$600K/year.

**F. Program Operations:** for consistent presentation and reading across F5SMC's Budget and F5SMC's LTFP, Operations section includes:

- ✓ Program Operating Budget: Allocation rate of 50%
- ✓ Program and Evaluation Staff Salaries and Benefits
- ✓ Shared Admin Staff Time working on Program activities: Allocation rate of 27%

## III. ADMIN APPROPRIATIONS

**G. Shared Operating Budget:** Allocation rate of 50%

**H. Admin Staff Salaries and Benefits:** Allocation rate of 73%

## IV. RESTRICTED FUND FOR PENSION LIABILITY AND OPERATIONAL RESERVES

- Commission has approved in previous LTFPs a \$1M Pension Liability and 6 months of Operational Reserves. The Pension Liability and Operational Reserves are Restricted Funds and are set aside for its intended restricted uses.

## V. ENDING FUND BALANCE

- Commission has guided and approved the Ending Fund Balance after Pension Liability and Operational Reserves equal to or approximate 6 months of said fiscal year revenue for safety cash flow management after FY 2020.
- At the end of FY 2025, Projected Ending Fund Balance after Pension Liability and Operational Reserves is \$2.850 which is approximate to 6-month equivalent of FY 2025 Fiscal Revenue.

**LONG-TERM FINANCIAL PLAN LTFP FY2020-2025 (Update FY20/21)**

	CYCLE 3					CYCLE 4				
	FY 15-16 Actual	FY16-17 Actual	FY 17-18 Actual	FY 18-19 Actual	FY 19-20 Actual	FY20-21 Revised Budget	FY21-22 Budget	FY22-23 Projection	FY23-24 Projection	FY24-25 Projection
<b>BEGINNING FUND BALANCE</b> (Beginning Reserves*)	16,205	15,457	14,922	12,299	11,723	11,610	9,829	8,158	7,382	6,222
A. Interest Revenue	136	156	208	281	217	145	96	84	74	62
B. Tobacco Tax Revenue	6,098	5,846	5,262	5,559	5,758	5,468	5,106	4,758	4,601	4,455
C. Other Grant Revenues										
F5CA Other Grants / IMPACT Grant	219	428	650	467	598	400	502	400	200	200
Other Non-Tobacco Tax Grants	289	263	41	548	918	894	556	565	400	400
<b>Total Revenues</b>	6,742	6,693	6,161	6,854	7,491	6,907	6,260	5,807	5,275	5,116
<b>TOTAL AVAILABLE FUND</b> (Total Sources*)	22,947	22,150	21,083	19,154	19,214	18,518	16,089	13,964	12,657	11,339
<b>PROGRAM APPROPRIATIONS</b>										
<b>D1. Strategic Plan Investment SPIP FY20-23 (excl. E. Other Grants)</b>	5,663	5,781	6,694	4,854	4,958	3,780	3,780	3,780	3,780	3,780
Community Investments (Resilient Families, Healthy Children, Quality Care & Education)	5,392	5,261	6,092	4,360	4,482	3,180				
Evaluation	88	182	115	98	98	113				
Policy, Advocacy, & Communications (PAC)	183	338	486	396	378	487				
<b>D2. SPIP FY18-20 Carry Over Fund</b>						1,655	1,120			
<b>E. Other Grants</b>	360	326	559	904	916	1,263	954	712	500	500
F5CA Other Grants / IMPACT Grant	10	326	558	394	472	350	439	350	150	150
Other Non-Tobacco Tax Grants	350		1	510	444	913	515	362	350	350
<b>F. Program Operations</b>	426	585	628	688	1,068	1,217	1,265	1,240	1,280	1,313
Shared Operating Budget					142	194	206	220	220	220
Program Staff S&B & Shared Admin Staff Time	426	585	628	688	926	1,023	1,059	1,020	1,060	1,093
<b>Total Program Appropriations (D+E+F)</b>	6,449	6,692	7,881	6,446	6,942	7,916	7,119	5,732	5,560	5,593
<b>ADMIN APPROPRIATIONS</b>										
<b>G. Shared Operating Budget</b>	314	300	331	335	142	194	206	220	220	220
<b>H. Admin Staff S&amp;B</b>	730	626	607	649	519	579	606	630	655	676
<b>Total Admin Appropriations (G+H)</b>	1,044	926	938	984	662	773	812	850	875	896
<b>TOTAL APPROPRIATIONS (Net Appropriations*)</b>	7,492	7,618	8,819	7,431	7,604	8,689	7,931	6,582	6,435	6,489
Surplus / (Deficit) (Total Revenues - Total Appropriations)	(750)	(925)	(2,658)	(576)	(113)	(1,781)	(1,671)	(775)	(1,160)	(1,373)
<b>ENDING FUND BALANCE before Pension Liability and Operational Reserves</b> (Ending Reserves*before Pension Liability and Operational Reserves)	15,455	14,532	12,264	11,723	11,610	9,829	8,158	7,382	6,222	4,850
Restricted Fund for Pension Liability and Operational Reserves	1,640	1,850	1,850	1,900	1,900	2,000	2,000	2,000	2,000	2,000
<b>ENDING FUND BALANCE after Pension Liability and Operational Reserves</b> (Ending Reserves* after Pension Liability and Operational Reserves)	13,815	12,682	10,414	9,823	9,710	7,829	6,158	5,382	4,222	2,850

