



January 27, 2022

INFORMATION  ACTION

**SUBJECT: FINANCIAL UPDATE**

**SUMMARY OF THE ISSUE**

First 5 California (F5CA) staff will provide an update on the Commission's financial plan and other topics of financial interest.

**Revenue Update**

Table 1 on page 2 represents the actual and projected cigarette and tobacco tax revenues transferred from the California Department of Tax and Fee Administration (CDTFA) to the California Children and Families Trust Fund. The table includes updated revenue projections received from the Department of Finance (DOF) in May 2021. The table further displays the statutory distribution of 20% to the First 5 California State Commission and 80% to the county commissions. Revenue transfers are presented as actuals for fiscal year (FY) 2011/12 through FY 2019/20 and projected revenues FY 2020/21 through FY 2025/26, with the percentage decline from each fiscal year to the next.

**Proposition 10**

For FY 2021/22, the total Proposition 10 tobacco tax revenue collected by CDTFA for the months of July through December 2021 (prior to CDTFA adjustments for statewide assessments, administrative costs, and backfill to Proposition 99 and the Breast Cancer Fund) was \$162M. Of this amount, \$142.5M (after adjustments) was transferred to the California Children and Families Trust Fund. The State Commission's share totaled \$28.5M to administer the Media, Education, Child Care, Research and Development, Unallocated, and Administrative accounts.

**Backfill from Proposition 10**

Pursuant to section 130105 (c) of the Health and Safety Code, CDTFA determines the amount to be transferred to Proposition 99 and the Breast Cancer programs. This is to offset the decrease in revenue due to consumption changes triggered by Proposition

10. The backfill amount is deducted annually from the tax revenue prior to CDTFA's transfer to the CA Children and Families Trust Fund. This year, the backfill amount was \$12.167M.

**Table 1  
Actual and Projected Cigarette and Tobacco Tax Revenue through FY 2025/26**

	<b>Fiscal Year</b>	<b>F5 Commission Tax Revenue Amount</b>	<b>F5 Counties Tax Revenue Amount</b>	<b>Total Revenue Amount</b>	<b>% Change</b>
<b>Actuals</b>	2011/12	\$93,381,688	\$373,526,751	\$466,908,439	-0.71%
	2012/13	\$90,100,191	\$360,400,766	\$450,500,957	-3.51%
	2013/14	\$86,103,907	\$344,415,629	\$430,519,536	-4.44%
	2014/15	\$86,027,892	\$344,111,568	\$430,139,460	-0.09%
	2015/16	\$85,473,337	\$341,893,349	\$427,366,686	-0.64%
	2016/17	\$79,614,357	\$318,457,428	\$398,071,785	-6.85%
	2017/18	\$70,215,057	\$280,860,227	\$351,075,284	-11.81%
	2018/19	\$67,368,197	\$269,472,787	\$336,840,984	-4.05%
	2019/20	\$80,672,204	\$322,688,815	\$403,361,019	19.75%
<b>Projections</b>	2020/21	\$75,087,606	\$300,350,423	\$375,438,029	-6.92%
	2021/22	\$79,430,339	\$317,721,358	\$397,151,697	5.78%
	2022/23	\$77,605,339	\$310,421,358	\$388,026,697	-2.30%
	2023/24	\$75,620,139	\$302,480,558	\$378,100,697	-2.56%
	2024/25	\$73,738,539	\$294,954,158	\$368,692,697	-2.49%
	2025/26	\$71,917,939	\$287,671,758	\$359,589,697	-2.47%

Note: FY 2019/20 reflects an increase in revenue due to Proposition 56 Backfill being significantly higher than the previous fiscal year. F5CA does not expect a revenue increase such as this to reoccur in the future.

**CDTFA Administration Costs**

Pursuant to Revenue and Tax Code 30131.3, CDTFA will be reimbursed for expenses incurred in the administration and collection of taxes imposed by section 30131.2, and transfers of funds in accordance with subdivision (c) of section 130105 of the Health and Safety Code. For FY 2021/22, CDTFA projected to incur administrative costs of \$9.5M. This amount will be evenly allocated across 11 months in the amount of \$863,636 per month. The administrative costs are deducted from the monthly Proposition 10 revenue prior to transferring to the California Children and Families Trust Fund.

**Proposition 56 Backfill**

Proposition 56 was approved by voters in November 2016, increasing the state's excise tax on cigarettes and other tobacco products. The backfill was intended to maintain the loss of revenues to existing tobacco tax funds as a result of the decline of purchases and consumption. In May 2021, the projected amount of Proposition 56 backfill to be

received in FY 21/22 was \$93.5M. The total amount received from CDTFA was \$96.7M, with 80% being allocated to county commissions and 20% being allocated to the State Commission. The State Commission's percentage is distributed to the state administered funds as follows:

<b>FUND</b>	<b>Percentage</b>	<b>Amount to Transfer</b>
Mass Media	6%	\$ 5,802,000.00
Education	5%	\$ 4,835,000.00
Child Care	3%	\$ 2,901,000.00
Research & Development	3%	\$ 2,901,000.00
Administration	1%	\$ 967,000.00
Unallocated	2%	\$ 1,934,000.00
<b>TOTAL</b>	<b>20%</b>	<b>\$ 19,340,000.00</b>

The transfer amount received in FY 2021/22 would backfill funds for FY 2020/21.

**SB No. 793**

On August 28, 2020, Governor Newsom signed SB 793 (Hill) which prohibits the sale of most flavored tobacco products and tobacco product flavor enhancers. On January 22, 2021, a veto referendum qualified for the next statewide ballot. This referendum has suspended the implementation of SB 793, pending the outcome of the November 2022 general election. If upheld, DOF forecasted a decline in revenue to begin in FY 2022/23 with a half year impact, and a full year impact beginning in FY 2023/24. F5CA understands both the State and county Commissions utilize projections to determine future long-term planning. F5CA will continue to monitor SB 793.

**SB 129 Budget Act of 2021**

Pursuant to Control Section 19.56 of the Budget Act, \$2M was appropriated from the General Fund to First 5 Solano through First 5 California. This funding is the result of a proposal submitted through Assemblymember Jim Frazier's office to build a First 5 Children's Center in Fairfield.

**Financial Plan**

F5CA tracks actual and projected revenues and expenditures by fiscal year for the following six Proposition 10 accounts for use by the State Commission: Mass Media Communications, Education, Child Care, Research and Development, Unallocated, and Administration. This information is captured in F5CA's Financial Plan (Attachment A), which includes actual and projected revenue and expenditures by account for the current year and four subsequent fiscal years. Attachment B, entitled Fund Condition Summary, provides additional detail of the Financial Plan for each of F5CA's accounts.

## **Audit Update**

DOF, Office of State Audits and Evaluation completed audit testing in August 2019 for FY 2015/16 and 2016/17. F5CA has not received preliminary findings to date.

## **ATTACHMENTS**

- A. First 5 California Financial Plan FY 2020/21 through 2025/26
- B. First 5 California Fund Condition Summary 2020/21 through 2025/26
- C. Financial Plan PowerPoint