



May 9, 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 February 2022 (prior to CDTFA adjustments for statewide assessments, administrative costs, and backfill to Proposition 99 and the Breast Cancer Fund) was \$200M. Of this amount, \$179.2M (after adjustments) was transferred to the California Children and Families Trust Fund. The State Commission's share totaled \$35.8M to administer the Media, Education, Child Care, Research and Development, Unallocated, and Administrative accounts.

Recent trends have shown the tobacco tax revenue transfers for the months of November and February are lower than other months during the fiscal year. This can be attributed to factors such as, but not limited to, revenue still in transit to the State Controller's Office (SCO) and not captured prior to the transfer of funds or a decline in cigarette tax stamp purchases. The amount available to transfer for February 2022 was

\$7.1M, with the State Commission receiving \$1.4M. In February 2021, the amount available to transfer was \$7.5M, with the State Commission receiving \$1.5M showing a slight decline. February revenue not captured prior to the month's cutoff, will be captured in March.

Overall, the revenues transferred this fiscal year has shown a decline. At this time last year, revenues collected and transferred to the California Children and Families Trust Fund (after CDTFA adjustments) was \$197.6M. In comparing this to what has been collected this fiscal year, \$179.6M, there is a percentage decrease of approximately 9%. CDTFA has not transferred March revenues yet to see the impact, if any, of additional February revenues.

Additionally, the State Commission, in partnership with the First 5 Association, has engaged Brad Williams from Capitol Matrix Consulting, to analyze Tobacco Tax revenue trends and the projections received from the Department of Finance. Mr. William's analysis will assist both groups in adjusting budget plans as we look forward to future investment planning. Mr. Williams will present his analysis at our May 2022 budget retreat.

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

	Fiscal Year	F5 Commission Tax Revenue Amount	F5 Counties Tax Revenue Amount	Total Revenue Amount	% Change
Actuals	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%
Projections	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.

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:

FUND	Percentage	Amount to Transfer
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
TOTAL	20%	\$ 19,340,000.00

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, 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.

May 2022 Budget Retreat

Last January, the State Commission provided an overview of First 5 California's current investments and the connection to the North Star Statement and Audacious goals. At our May budget retreat, staff will provide an overview of First 5 California's fund accounts and discuss the impact of declining revenue, as well as the impact of SB 793 should the referendum fail in November. In addition, staff will present to Commissioners proposed future investments for discussion of the Commission's goals, vision and prioritization.

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 2021/22 through 2025/26
- B. First 5 California Fund Condition Summary 2021/22 through 2025/26