



October 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 2022. 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 2020/21 and projected revenues for FY 2021/22 through FY 2026/27, 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 2021 through June 2022 (prior to CDTFA adjustments for statewide assessments, administrative costs, and backfill to Proposition 99 and the Breast Cancer Fund) was \$313M. Of this amount, \$288M (after adjustments) was transferred to the California Children and Families Trust Fund. The State Commission's share totaled \$57.7M to administer the Mass Media Communications, Education, Child Care, Research and Development, Unallocated, and Administration accounts.

Revenue is received throughout the fiscal year. Therefore, First 5 California does not realize the full fiscal year total until September or October of the following fiscal year. In order to encumber funds (set aside funds for current commitments and obligations of the State Commission), there must be a sufficient carryover cash balance to cover these costs or projected current revenue that would ensure sufficient cash in the given fiscal year to cover the fiscal year obligations.

Proposition 56 Backfill

The actual backfill amount transferred to the California Children and Families Trust Fund in FY 2021/22 was \$96.7M. The amount received is to backfill funds affected by changes in consumption during FY 2020/21. The projected amount to be transferred in FY 2022/23 is \$90M, with the State Commission estimated to receive \$18M. In prior years, the funds were transferred into the Trust Fund in late December or early January.

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 tax funds as a result of the decline of purchases and consumption.

Table 1

	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%
	2020/21	\$75,087,606	\$300,350,423	\$375,438,029	-6.92%
Projections	2021/22	\$80,077,539	\$320,310,158	\$400,387,697	6.65%
	2022/23	\$73,339,939	\$293,359,758	\$366,699,697	-8.41%
	2023/24	\$69,613,939	\$278,455,758	\$348,069,697	-5.08%
	2024/25	\$66,266,739	\$265,066,958	\$331,333,697	-4.81%
	2025/26	\$64,406,339	\$257,625,358	\$322,031,697	-7.48%
	2026/27	\$62,626,939	\$250,507,758	\$313,134,697	-5.49%

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.

Senate Bill (SB) 395 (Caballero, 2021)

SB 395 enacted the Healthy Outcomes and Prevention Education (HOPE) Act, which imposes the California Electronic Cigarette Excise Tax (CECET). Beginning July 1, 2022, retailers of electronic cigarettes, containing or sold with nicotine, are required to collect the CECET at a rate of 12.5% from the purchaser at the time of sale. CDTFA oversees the collection and distribution of the CECET tax. All revenues, interest, and

penalties, less refunds, collected from the tax will be distributed accordingly with a portion going to the California Children and Families Trust Fund.

Retailers are required to file separately from any other reports and returns, with the first filing and payment being due by October 31, 2022 (covers reporting period July 1, 2022, through September 30, 2022).

Senate Bill (SB) 793 (Hill, 2020)

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 Commission and county commissions utilize projections to determine future long-term planning and, therefore, will continue to monitor SB 793.

Year End Update

F5CA staff, in collaboration with the Department of General Services (DGS), have closed FY 2021/22. Staff is currently working with CDTFA to reconcile fund balances, as the California Children and Families Trust Fund is shared between the two state departments. This is the final step in the closing process. In addition, staff is working with program to validate remaining program balances. Staff will present year end actuals at the January 2023 Commission meeting.

Financial Plan

F5CA tracks actual and projected revenues and expenditures by FY 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. Currently, the financial plan is reflecting six years as we work to complete FY 2021/22. 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 FYs 2015/16 and 2016/17. F5CA has not received preliminary findings to date.

ATTACHMENTS

- A. First 5 California Financial Plan FY 2021/22 through 2026/27
- B. First 5 California Fund Condition Summary 2021/22 through 2026/27