



October 19, 2023

INFORMATION ACTION

SUBJECT: FINANCIAL UPDATE

SUMMARY OF THE ISSUE

This information item will provide background regarding State Commission funding, including Proposition 10, Proposition 56 (backfill), California Electronic Cigarette Excise Tax (CECET) and Surplus Money Investment Fund (SMIF) income. The purpose of this item is to provide a high-level understanding of how the State Commission is funded. In accordance with Health and Safety Code (HSC) Section 130105, the California Children and Families Trust Fund shall consist of moneys collected pursuant to the taxes imposed by Section 30131.2 of the Revenue and Taxation code. California Department of Tax and Fee Administration (CDTFA) collects cigarette and tobacco tax revenues for the Fund. Once adjustments have been determined for the annual backfill to Proposition 99 Fund and Breast Cancer Fund (backfill), CDTFA's administrative costs, and statewide assessments, moneys are allocated and appropriated from the Trust Fund as follows: Eighty percent disbursed to county commissions based off birth rates and twenty percent to the State Commission. The statutory distributions of the State Commission's share are below in Table 1. Attachment A provides an overview of the separate accounts listed below.

Table 1

	Statutory Distribution	Distribution Conversion
Mass Media	6%	30%
Education	5%	25%
Child Care	3%	15%
Research and Development	3%	15%
Administration	1%	5%
Unallocated	2%	10%
Total	20%	100%

Revenue Update

Table 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 further displays the statutory distribution of 20% to the 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 2023–24, with the percentage decline from each fiscal year to the next.

Table 2

	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	\$77,244,781	\$308,979,124	\$386,223,905	2.87%
	2022/23	\$68,505,664	\$274,022,654	\$342,528,318	-11.31%
	2023/24	\$59,355,664	\$237,422,654	\$296,778,318	-13.36%

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 recur in the future.

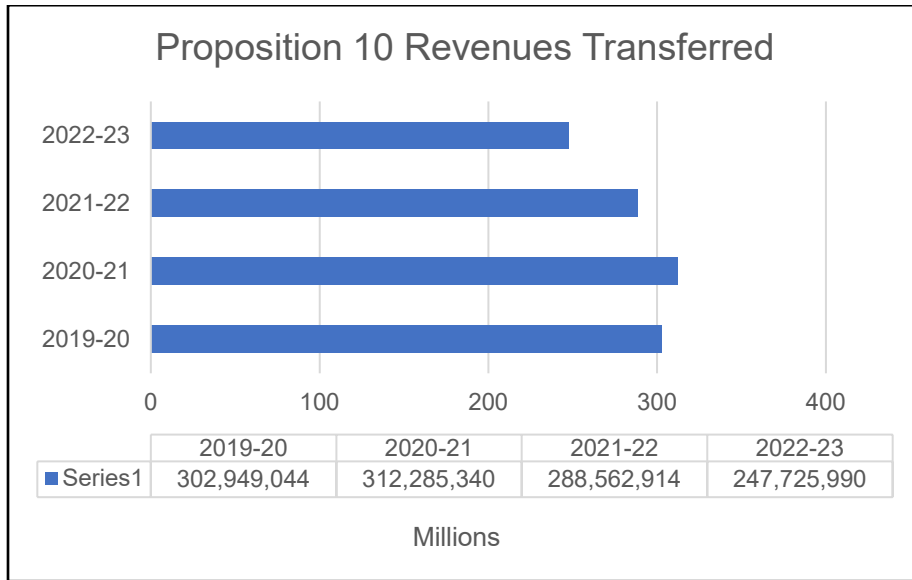
FY 2022–23 YEAR-END SUMMARY

Proposition 10

The total Proposition 10 tobacco tax revenue transferred by CDTFA in FY 2021–22, after adjustments, was approximately \$289 million. The total revenues transferred in FY 2022–23, after adjustments, was \$248 million, representing a 14% decrease in revenues transferred from FY 2021–22. In November 2022, Proposition 31, Flavored Tobacco Products Ban Referendum (2022) was approved by voters and went into effect December 21, 2022. As a result of the passage, FY 2022–23 experienced a half year impact to revenues.

Chart 1 displays the total Proposition 10 revenues transferred by CDTFA from FY 2019–20 through 2022–23.

Chart 1
Four Year Revenue Comparison

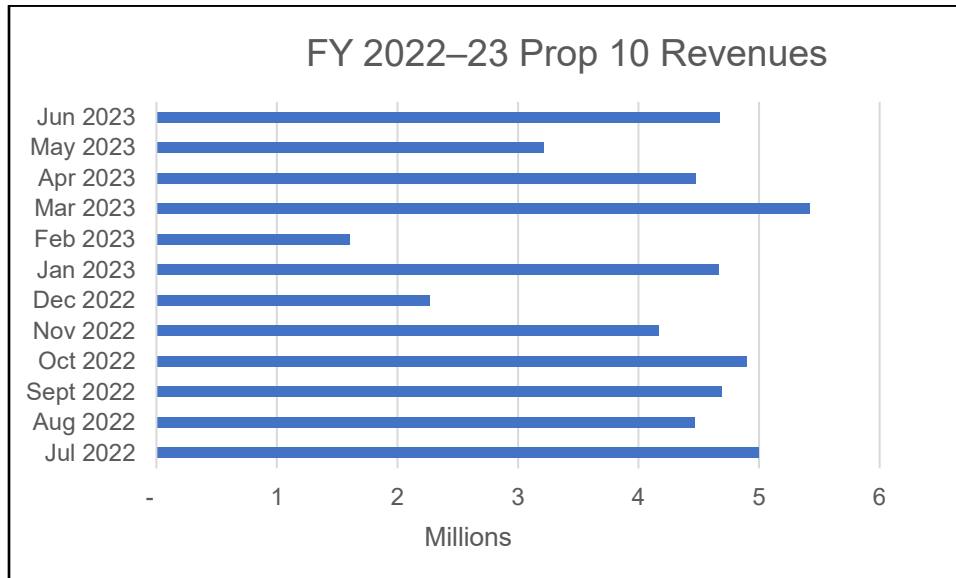


CDTFA adjustments to the Proposition 10 Tax Revenues are as follows:

- FY 2022–23 backfill totaled \$9,454,000, a decrease of 0.22 percent from FY 2021–22.
- Administrative costs were estimated to be \$9 million in FY 2022–23
- Statewide Assessment for Pro Rata – \$839,396
- SB 84 Loan Repayment – \$335,000

First 5 California (F5CA) receives revenue throughout the fiscal year, with a two-to-three-month delay. Therefore, F5CA does not realize the full fiscal year revenues until September or October of the following fiscal year. Of the \$248 million transferred in FY 2022–23, the State Commission is allocated twenty percent to administer the state accounts. Chart 2 below displays the State Commission’s share of Proposition 10 revenues received, as well as the fluctuations by month.

**Chart 2
State Commissions Share of Prop 10 Revenue by Month**



Jul 2022	Aug 2022	Sept 2022	Oct 2022	Nov 2022	Dec 2022
4,998,087.00	4,464,932.00	4,689,353.00	4,898,255.00	4,171,736.00	2,265,947.00
Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023
4,663,896.00	1,601,096.00	5,424,396.00	4,479,335.00	3,211,078.00	4,677,086.00

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. The Commission enters into multi-year agreements with vendors and county commissions, typically in periods of three-to-four years. However, encumbrances for agreements only include unpaid and remaining commitments for the current fiscal year. It is not the entire agreement amount. Therefore, funds must be available for current fiscal year obligations on July 1 of each fiscal year.

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

For FY 2022–23, the Proposition 56 backfill amount transferred to the California Children and Families Trust Fund is \$84,712 million, with the State Commission receiving \$16.9 million to administer the state’s accounts. The revenue transfer is to backfill funds affected by the changes in consumption during the previous fiscal year. Table 3 below shows the allocation of funds to each of the State administered accounts.

Table 3

Prop 56 Allocation – State Commission Share	
Mass Media Communications	\$ 5,082,720
Education	4,235,600
Child Care	2,541,360
Research & Development	2,541,360
Administration	847,120
Unallocated	1,694,240
Total	\$ 16,942,400

California Electronic Cigarette Excise Tax (CECET)

SB 395 enacted the Healthy Outcomes and Prevention Education (HOPE) Act, which imposes the 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 12 percent going to the California Children and Families Trust Fund.

The total transferred for Quarters 1 through 3 was \$4,530,638.43, with 20% allocated to the State Commission to administer the state accounts. Table 4 below shows the allocation for the State administered accounts.

Table 4

CECET Tax - State Commission Share	
Mass Media	271,838.31
Education	226,531.92
Child Care	135,919.16
Research and Development	135,919.16
Administration	45,306.39
Unallocated	90,612.76
Total	906,127.70

Surplus Money Investment Fund (SMIF) Income

Money deposited into the State Treasury and determined to be in excess of immediate needs, is transferred for investment purposes in the Surplus Money Investment Fund (SMIF). All earnings derived from investment of the SMIF are apportioned quarterly by the State Controller’s Office (SCO) pursuant to Government Code.

The rate of interest earned on investments changes quarterly. As of June 30, 2023, the apportionment yield rate was 2.911%. Yield rates can be located at <https://www.sco.ca.gov/Files-ARD/CASH/smifrate.pdf>.

Table 5 displays the SMIF revenue earned by the State administered accounts for FY 2022–23.

**Table 5
SMIF Revenue Earned by Account**

FY 2022/23 SMIF Revenue	
Mass Media	965,568.29
Education	1,592,404.33
Child Care	536,652.76
Research and Development	963,967.54
Administration	140,027.16
Unallocated	577,216.12
Total	4,775,836.20

Table 6 shows First 5 California’s adjusted beginning balance, year-end revenue and expenditure results, and the unaudited year-end balances by account.

**Table 6
FY 2022-23 Fund Condition**

Fund	FY 2021/22 Beginning Balance	FY 2022/23 Revenue	FY 2022/23 Expenditures	FY 2022/23 Ending Balances
Mass Media	\$ 29,458,679.15	\$ 19,679,557.64	\$ 21,042,933.34	\$ 28,095,303.45
Education	\$ 59,542,761.36	\$ 18,034,354.19	\$ 16,706,665.26	\$ 60,870,450.29
Child Care	\$ 16,370,792.44	\$ 9,894,984.85	\$ 15,491,305.43	\$ 10,774,471.86
Research & Development	\$ 34,596,052.41	\$ 10,322,299.63	\$ 6,683,975.16	\$ 38,234,376.88
Administration	\$ 7,911,774.59	\$ 3,274,471.18	\$ 5,284,731.31	\$ 5,901,514.46
Unallocated	\$ 23,725,569.36	\$ 6,816,104.18	\$ 3,102,489.86	\$ 27,439,183.68
Totals	\$ 171,605,629.31	\$ 68,021,771.67	\$ 68,312,100.36	\$ 171,315,300.62

Balances are from unaudited year-end financial statements and will not match fund condition balances due to committed asks not being encumbered in fund balance.

ATTACHMENTS

- A. First 5 California Fund Overview
- B. First 5 California Fund Condition Summary FY 2023–24