



January 25, 2024

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), and California Electronic Cigarette Excise Tax (CECET). 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 monies collected pursuant to 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 CDTFA determines the adjustments to be made for the annual backfill to Proposition 99 Fund and Breast Cancer Fund (backfill), CDTFA’s administrative costs and statewide assessments, monies are transferred from the Trust Fund to the counties and state accounts, which are all interest-bearing accounts. The following table represents the statutory distribution of revenue by account.

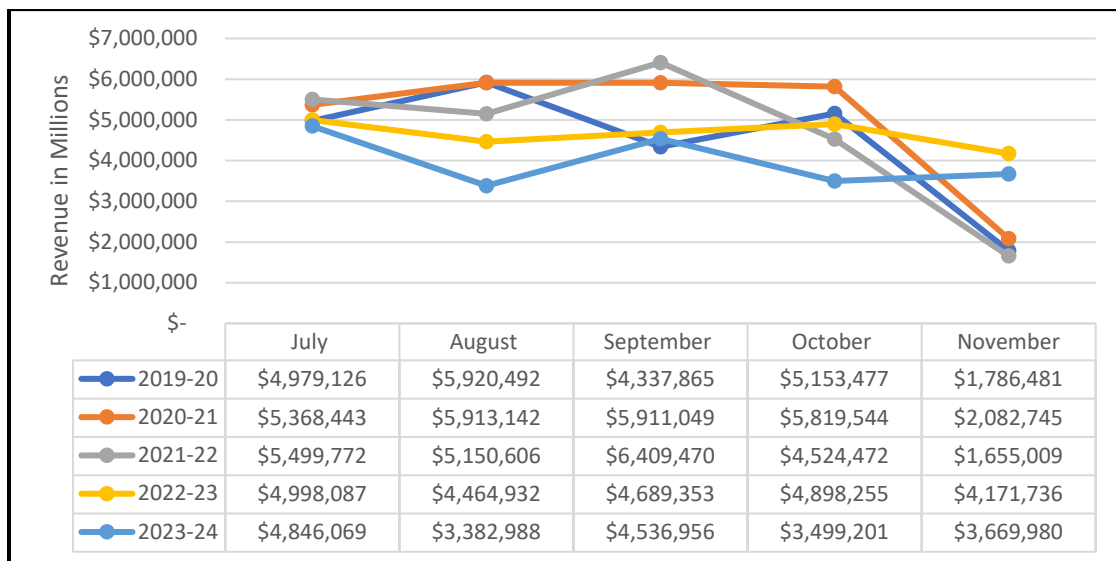
Counties Account	Statutory Distribution	Distribution Conversion
Disbursed to 58 County Commissions	80%	N/A
State Accounts	Statutory Distribution	Distribution Conversion
Mass Media Communications	6%	30%
Education	5%	25%
Child Care	3%	15%
Research and Development	3%	15%
Unallocated	2%	10%
Administration	1%	5%
Total	20%	100%

Attachment A, F5CA Funding Overview, demonstrates the flow of revenue from collection to its transfer to the individual state and counties accounts. Once First 5 California is notified that a transfer of funds has occurred, a claim for county disbursements is initiated, if requirements specified in statute have been met. Revenue is disbursed to counties based on the number of births recorded in the relevant county in proportion to the entire number of births recorded in California. Interest that accumulates in the county account is also disbursed annually to the county commission using this same formula.

Revenue Update

The amount of monthly tax revenues received in the six state accounts can be unpredictable and varies each month, each fiscal year. To date, CDTFA has transferred Proposition 10 revenues for the months of July through November 2023. The following chart demonstrates the volatility for these months over the last 5 fiscal years for the State Commission.

STATE COMMISSION 5-YEAR REVENUE TRENDS (JULY – NOVEMBER)

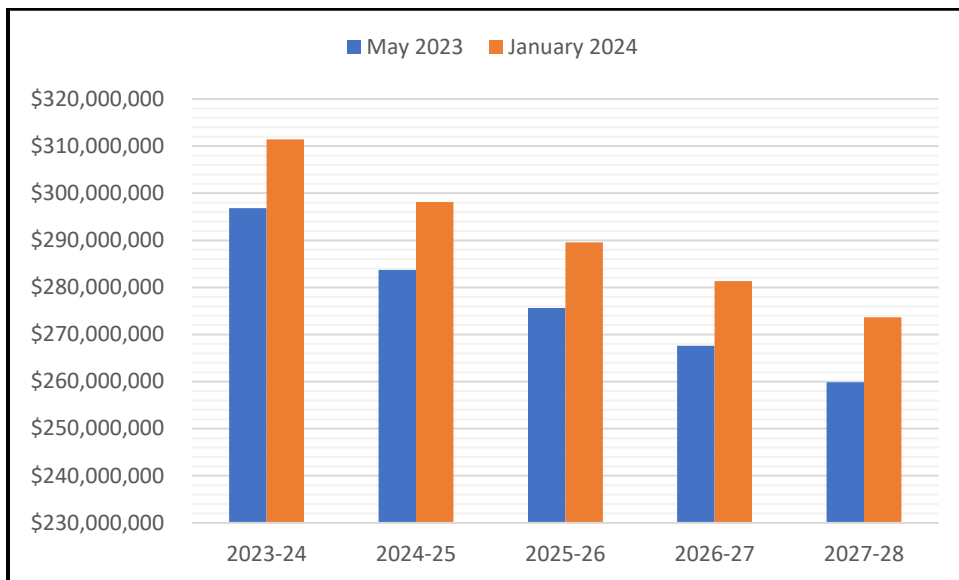


In comparison to the first five months of Fiscal Year (FY) 2022–23, the current FY is showing a 14% decline in Proposition 10 revenue received. This can be attributed to both intended and unintended factors, which include, but not limited to, state and federal legislation, comprehensive smoking cessation programs and the current economy. The recent passage of Senate Bill (SB) 395 (Stats. 2021, ch. 489) which imposes the California Electronic Cigarette Excise Tax (CECET) has also had an impact. CECET revenues were previously reported under the Cigarette and Tobacco program, but after the July 1, 2022 implementation, it is now reported under a separate fund. Funds collected for CECET are transferred by CDTFA separately from Proposition 10 revenues. The first quarter of CECET revenue was received with the State Commission receiving \$285,892.29.

Proposition 56 Backfill is estimated to be \$84.5 million with the State Commission receiving \$16.9 million. The transfer of funds has not yet occurred.

Revenue Projections

The First 5 California Financial Plan for FY 2023–24 through 2027–28, Attachment B, includes updated fiscal year revenue projections based on the release of the 2024–25 Governor’s Budget (released January 10, 2024) for cigarette and other tobacco tax revenue. The projections below are inclusive of Proposition 10 Revenues, Proposition 56 (backfill), CECET, Interest revenues, less adjustments for backfill to Proposition 99 and Breast Cancer Fund, CDTFA Administrative costs and statewide assessments. The amount below is a projected amount available to transfer with 80 percent being allocated to county commissions and 20 percent being allocated to the State Commission.



Financial Plan

F5CA tracks actual and projected revenues and expenditures for F5CA programs and operations 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 B) and the First 5 California Fund Condition Summary (Attachment C) for current year and four subsequent fiscal years. Staff will provide the State Commissioners with an overview of key components of the plan.

ATTACHMENTS

- A. F5CA Funding Overview
- B. First 5 California Financial Plan
- C. First 5 California Fund Condition Summary