



August 22, 2024

INFORMATION ACTION

SUBJECT: FINANCIAL UPDATE

SUMMARY OF THE ISSUE

The purpose of this item is to provide a high-level understanding of how the First 5 California (F5CA) State Commission is funded. The information below will provide background information regarding State Commission funding, including Proposition 10, Proposition 56 (backfill), and the California Electronic Cigarette Excise Tax (CECET).

In accordance with Health and Safety Code (HSC) Section 130105, the California Children and Families Trust Fund (Fund) shall consist of monies collected pursuant to taxes imposed by Section 30131.2 of the Revenue and Taxation Code.

Referencing Attachment A, Funding Overview, 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 various fund accounts, which are all interest-bearing accounts.

REVENUE UPDATE

Proposition 10

For Fiscal Year (FY) 2023–24, the total Proposition 10 tobacco tax revenue collected by CDTFA for the months of July 2023 through May 2024 (prior to CDTFA adjustments for statewide assessments, administrative costs, and backfill to Proposition 99 and the Breast Cancer Fund) was \$216M. Of this amount, \$198M (after adjustments) was transferred to the California Children and Families Trust Fund. The State Commission's share totaled \$39.6M to administer the Mass Media Communications, Education, Child Care, Research and Development, Unallocated, and Administration accounts.

Chart 1 below reflects the year-to-date Proposition 10 revenues received for State Commission operations (excludes county share) for the months of July 2023 through May 2024. Chart 2 shows a four-year revenue comparison by month, reflecting the fluctuations in monthly revenues received between FY 2020/21 through FY 2023/24.

Chart 1

FY 2023/24 Proposition 10 Revenue – State Commission’s Share (20%)

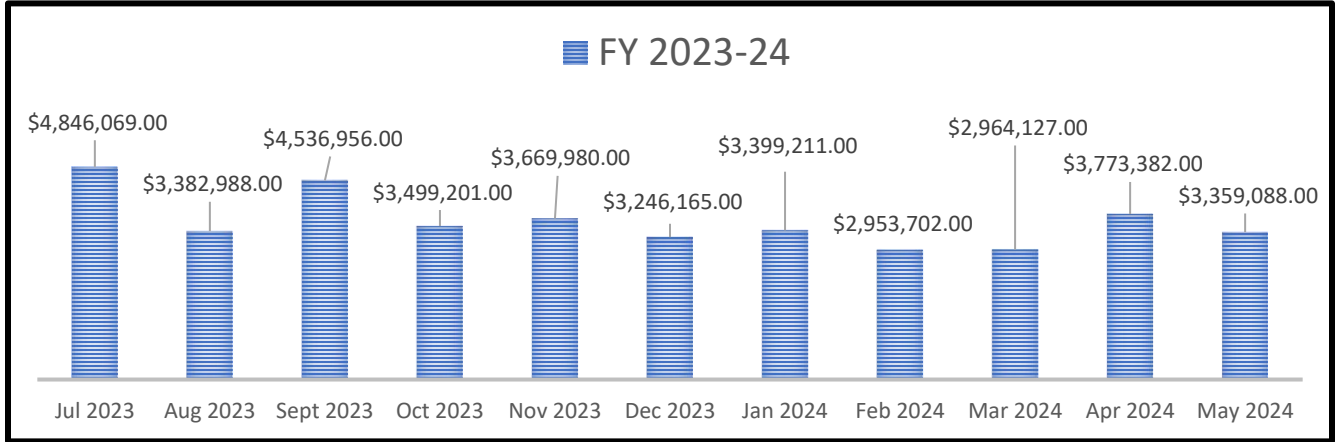
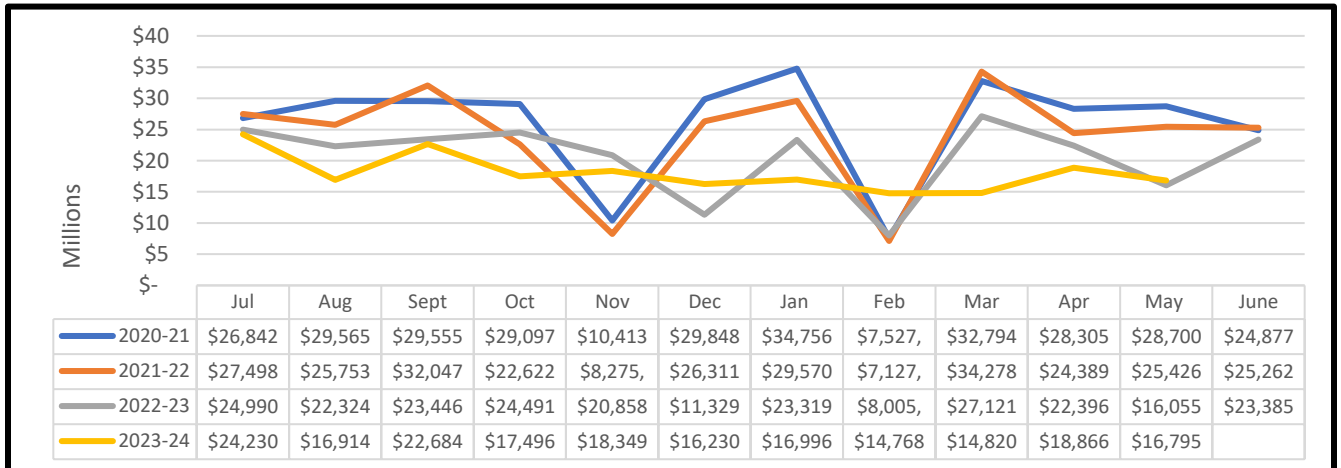


Chart 2

Four-Year Revenue Comparison by Month – State Commission



F5CA receives revenue throughout the fiscal year, with a two-to-three-month delay. Therefore, F5CA does not realize the full fiscal year revenue until August or September of the following fiscal year.

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 because of the decline of purchases and consumption.

For FY 2023–24, the Proposition 56 backfill amount transferred to the California Children and Families Trust Fund is \$84,543 million, with the State Commission receiving \$16.9 million to administer the state's funds. The revenue transfer is to backfill funds affected by the changes in consumption during the previous fiscal year.

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 a portion going to the California Children and Families Trust Fund. For the first 3 quarters collected, after adjustments, CDTFA transferred \$3.9M to the California Children and Families Trust Fund. Of that amount, the State Commission received \$791k.

YEAR END

F5CA staff continues to work closely with CDTFA and the Department of General Services (DGS) to close out fiscal year 2023–24. Once the financial statements are submitted and the fund reconciliation complete, staff will present final numbers to Commissioners. We hope to share that information at the Fall Commission meeting.

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 the 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