



October 30, 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 Fund to the various fund accounts, which are all interest-bearing accounts.

REVENUE UPDATE

Proposition 10

For Fiscal Year 2024–25, the total Proposition 10 tobacco tax revenue collected by CDTFA for the months of July and August 2024 (prior to CDTFA adjustments for statewide assessments, administrative costs, and backfill to Proposition 99 and the Breast Cancer Fund) was \$39.3MM. Of this amount (after adjustments), \$38MM was transferred to the California Children and Families Trust Fund. The State Commission's share totaled \$7.6MM to administer the Mass Media Communications, Education, Child Care, Research and Development, Unallocated and Administration accounts.

Table 1 below is a four-year history of what we have received in the first two months of the fiscal year beginning with fiscal year 2021–22. The percentage change between fiscal year 2023–24 to fiscal year 2024–25 is approximately 8%.

The revenue for fiscal year 2024–25 is projected to be \$299.8MM with the State Commission’s share being approximately \$60MM.

Table 1 – Four-Year History of July and August Revenues for the State Commission

	FY 2021–22	FY 2022–23	FY 2023–24	FY 2024–25
July	\$ 5,499,772.00	\$ 4,998,087.00	\$ 4,846,069.00	\$ 3,668,272.00
August	\$ 5,150,606.00	\$ 4,464,932.00	\$ 3,382,988.00	\$ 3,937,767.00
Total	\$ 10,650,378.00	\$ 9,463,019.00	\$ 8,229,057.00	\$ 7,606,039.00

F5CA is not a standard Budget Act appropriation. Revenue is received monthly 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.

The funds of the State Commission are continuous appropriations. This means the funds were created and defined as continuously appropriated for a specified purpose. Expenditure authority is provided to the State Commission to spend for a specific purpose, provided there is a sufficient cash balance in the fund. 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’s obligations. The State Commission enters into multi-year agreements with vendors and county commissions. 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 year obligations on July 1 of each fiscal year.

Proposition 56 Backfill

Proposition 56 backfill 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 funds because of the decline of purchases and consumption.

The revenue is received annually as a one-time transfer. Proposition 56 backfill is typically transferred the beginning of the calendar year and is to backfill the previous year. For example, revenue we receive in fiscal year 2024–25, is to backfill funds affected by consumption changes in the fiscal year 2023–24.

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.

Retailers file their CECET returns and payments on or before the last day of the month following the quarter end. For example, for the reporting period July through September, retailers have until October 31st to file their returns and payments. After CDTFA performs reconciliations, revenues are transferred to the Trust fund.

California Assembly Bill 3218 (Chapter 849, Statutes of 2024)

Governor Newsom signed into law Assembly Bill (AB) 3218, which would improve the implementation of the flavored tobacco ban (SB 793, 2019) by strengthening enforcement efforts. With the passage of this bill, the Attorney General (AG) will establish and maintain a publicly available list of tobacco product brand styles that lack a characterizing flavor, as defined, by December 31, 2025. AB 3218 would prohibit a distributor or wholesaler from selling any tobacco product not listed on the Unflavored Tobacco List, allowing the AG to assess civil penalties for violations. For more information on AB 3218, please reference link below. The bill goes into effect January 1, 2025, and the financial impact to the state administered fund accounts is unknown at this time.

[Bill Text: CA AB3218 | 2023-2024 | Regular Session | Chaptered | LegiScan](#)

YEAR-END

Year-end financial reports were submitted to the State Controller's Office for all F5CA funds in early September. Currently staff are finalizing the reconciliation of fund balances between accounting and budget which is required under Government Code (GC) Sections 12460 and 13344. Staff hope to have this completed by the October 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.