AGENDA ITEM: 5
DATE OF MEETING: January 18, 2012
ACTION: ________
INFORMATION: ___X____

FINANCIAL PLAN FISCAL YEAR 2011-12 AND 2011 FINANCIAL AUDIT REPORT

SUMMARY OF REQUEST

First 5 California staff will provide State Commissioners a report on the FY 2010-11 Financial Audit Report and provide an overview for First 5 California's FY 2011-12 Financial Plan.

AUDIT

The Department of Finance, Office of State Audits and Evaluations (DOF), performed First 5 California's FY 2010-11 financial audit. The report is titled, *A Financial Statement Audit, First 5 California Children and Families Trust Fund and Related Accounts for the Fiscal Year Ended June 30, 2011*. This report is available on First 5 California's Web site at http://www.ccfc.ca.gov/commission/fiscal.asp.

DOF performed this audit in accordance with an interagency agreement with First 5 California. The objectives of the audit were to:

- Express an opinion on the Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance of the Children and Families Trust Fund (Fund) and related accounts for the fiscal year ending June 30, 2011.
- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental funds.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over operations on the Fund and related accounts.

Audit Results:

- The aforementioned financial statements were fairly presented for the fiscal year ended June 30, 2011.
- The audit did not identify any reportable internal control or compliance weaknesses.

On November 8, 2011, the Department of Finance sent a Management Letter to Kris Perry, Executive Director, summarizing the auditor's comments and suggestions regarding two matters that present an opportunity for strengthening internal controls over First 5 California's fund. (Attachment B). The two issues related to Department of General Services' CALSTARS Access and First 5 California's reconciliation documentation. First 5 California responded to the recommendations. (Attachment C)

REVENUE

The following table represents the actual tax revenues transferred from the California Children and Families Trust Fund (0623) to First 5 California state accounts from Fiscal Year (FY) 2006-07 through FY 2010-11 and projected revenue for FY 2011-12 through 2014-15.

Fiscal Year	Tax Revenue Amount
2006-2007	$116,000,574
2007-2008	$109,726,760
2008-2009	$105,060,597
2009-2010	$95,830,895
2010-2011	$94,050,327
Fiscal Year	**Proposed Tax Revenue Amount**
2011-2012	$90,163,000
2012-2013	$86,048,800
2013-2014	$82,848,800
2014-2015	$79,648,800

REVENUE ADJUSTEMENTS

The Board of Equalization (BOE) administers the Fund which includes determining the amount for adjustments to the Fund prior to the transfer of funds to the designated State Commission and county commission accounts. These adjustments include the annual backfill to the Proposition 99 Fund and Breast Cancer Fund and the monthly BOE operational costs for tax collection and enforcement programs.

<u>Backfill</u>

Pursuant to Health and Safety Code (HSC) section 130105, the California Children and Families Trust Fund (hereinafter referred to as "the Fund"), was created in the State Treasury and consists of revenues collected pursuant to the taxes imposed by Section 30131.2 of the Revenue and Taxation Code. The Board of Equalization (BOE) administers the Fund and determines the amount to be transferred to specific (non Proposition 10) programs to offset the revenue decrease directly resulting from the additional taxes imposed by Proposition 10. The transfer of funds to other programs is referred to as the “backfill.” The backfill amount is deducted annually from the tax revenues prior to the BOE’s transfer of funds to First 5 California and county commissions.

At the November 15, 2011, BOE Board Meeting, the BOE Board approved the staff recommendation to adjust the California Children and Families Trust fund by $16.5 million for backfill. (Attachment D) The adjustment occurred against the November 2011 cigarette tax revenue.

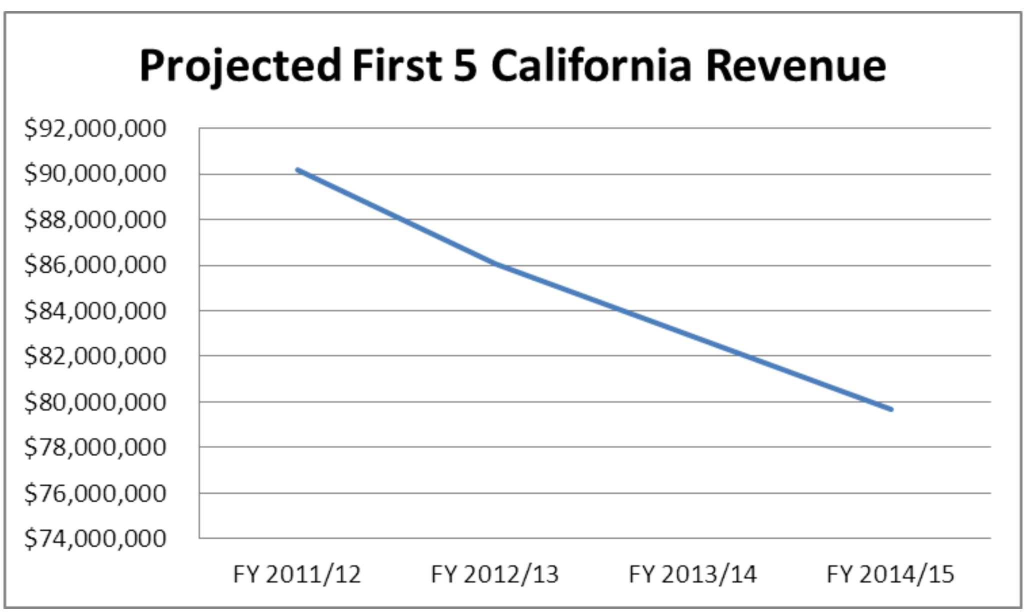
<u>BOE Operational Costs for Tax Collection and Enforcement Programs</u>

Pursuant to Revenue and Tax Code section 30131.3, the BOE will be reimbursed for expenses incurred in the administration and collection of the taxes imposed by Proposition 10. In December 2011, the BOE reported projected operational costs for tax collection and enforcement programs as follows: FY 2011-12/$16.8 million and FY 2012-13/$17.4 million.

REVENUE PROJECTIONS

The Department of Finance projections have historically demonstrated tobacco tax revenue is declining. The rate of decline is caused by both intended and unintended factors, which include federal legislation, state initiatives, First 5 California’s parent education and outreach efforts, and comprehensive smoking cessation programs to reduce tobacco use, as well as the impact of the state’s sluggish economy.

Based on the Department of Finance revenue projections updated in May 2011, the following table shows projected tax revenues for First 5 California state accounts for FY 2011-12 through FY 2014-15.



LEVERAGED FUNDS

In FY 2010-11, First 5 California leveraged over $115 million in local and federal dollars for statewide efforts with approximately $60 million First 5 California funds. The following table provides a summary of FY 2010-11 state funds that resulted in local and federal leveraged funds.

FY 2010-11 First 5 California Program Leveraged Dollars			
Program Description	**State**	**Local Leveraged**	**Total**
Health Access	$13,986	$1,756,815	$1,770,801
Power of Preschool Demonstration[1]	$16,465,075	$68,535,677	$85,000,752
School Readiness, Cycle 2[1]	$40,038,917	$43,522,626	$83,561,543
		Federal Leverage	
Kit for New Parents[2]	$3,851,379	$1,248,859	$5,100,238
Total	$60,369,357	$115,063,977	$175,433,334

[1]Coordination Funds for these programs do not have a match requirement and are not included in the above amounts.

[2]State contribution represents 8 months of expenditures for *Kit* building and 12 months of *Kit* distribution for federal reimbursement.

FINANCIAL PLAN

First 5 California tracks actual and projected revenues and expenditures for First 5 California programs and operations by fiscal year for the following six state funds: Media and Mass Communications, Education, Child Care, Research and Development, Unallocated and Administrative. Attachment E displays the Financial Plan for FY 2011-12 through 2014-15. This plan includes projected revenue and expenditures by account, current year encumbrances and obligations, and three budget years of revenue and expenditure information.

ATTACHMENTS:

A. A Financial Statement Audit, First 5 California Children and Families Trust Fund and Related Accounts for the Fiscal Year Ended June 30, 2011 http://www.ccfc.ca.gov/commission/fiscal.asp.
B. November 8, 2011, Management Letter
C. December 22, 2011, First 5 California Response to Management Letter
D. October 26, 2011, BOE Staff Recommendation to BOE Board regarding Backfill
E. First 5 California Financial Plan FY 2011-12 through FY 2014-15

AGENDA ITEM 5
January 18, 2012
Attachment A

A Financial Statement Audit

First 5 California
Children and Families Trust Fund
and Related Accounts
For the Fiscal Year Ended
June 30, 2011

Prepared By:
Office of State Audits and Evaluations
Department of Finance

124250016DAR

October 2011

DEPARTMENT OF FINANCE
EDMUND G. BROWN JR. • GOVERNOR
915 L STREET • SACRAMENTO CA • 95814-3706 • WWW.DOF.CA.GOV

Transmitted via e-mail

November 8, 2011

Ms. Kris Perry, Executive Director
First 5 California
2389 Gateway Oaks Drive, Room 260
Sacramento, CA 95833

Dear Ms. Perry:

Final Report—First 5 California, 2011 Financial Statement Audit of the Children and Families Trust Fund and Related Accounts

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the First 5 California's Children and Families Trust Fund and related accounts for the fiscal year ended June 30, 2011.

The enclosed report is for your information and use. Because there were no audit observations or issues requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of the First 5 California, Department of General Services, and the State Board of Equalization. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Alma Ramirez, Supervisor, at (916) 322-2985.

Sincerely,

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Marsha Jones, Chief Deputy Director, First 5 California
Ms. Kim Gauthier, Chief Counsel, First 5 California
Ms. Terry L. Miller, Chief, Administrative Services Division, First 5 California
Ms. Sandra Beck, Fiscal Operations Manager, First 5 California
Ms. Kristine Cazadd, Executive Director, State Board of Equalization
Ms. Liz Peralta, Chief Accounting Officer, Accounting Section, State Board of Equalization
Mr. Mike Skikos, Acting Chief, Internal Audit Division, State Board of Equalization
Mr. Jim Martone, Acting Chief, Contracted Fiscal Services, Department of General Services
State Controller's Office, Division of Audits, First 5 Oversight Unit

A Financial Statement Audit

First 5 California
Children and Families Trust Fund
and Related Accounts
For the Fiscal Year Ended
June 30, 2011

Prepared By:
Office of State Audits and Evaluations
Department of Finance

124250016DAR

October 2011

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Alma Ramirez, CPA
Supervisor

<u>Staff</u>
Bryan Nguyen
David Munoz
Wrenna Finche

This report is also available on our website at http://www.dof.ca.gov

You can contact our office at:

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Sacramento, CA 95814
(916) 322-2985

Table of Contents

The Department of Finance, Office of State Audits and Evaluations (Finance), performed this audit in accordance with an interagency agreement with First 5 California. The objectives of our audit were to:

- Express an opinion on the *Balance Sheet* and *Statement of Revenue, Expenditures, and Changes in Fund Balance* of the Children and Families Trust Fund (Fund) and related accounts for the fiscal year ended June 30, 2011.

- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental funds.

- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over operations of the Fund and related accounts.

Audit Results

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2011.

- The audit did not identify any reportable internal control or compliance weaknesses. However, we noted other matters involving the internal control over financial reporting and its operation that we have reported to First 5 California management in a separate letter dated November 8, 2011.

This report is intended solely for the information and use of the Fund's management, those charged with governance, and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

INDEPENDENT AUDITOR'S REPORT

Ms. Kris Perry, Executive Director
First 5 California
2389 Gateway Oaks Drive, Room 260
Sacramento, CA 95833

We have audited the accompanying *Balance Sheet* as of June 30, 2011, and the related *Statement of Revenue, Expenditures, and Changes in Fund Balance* of the Children and Families Trust Fund (Fund) and related accounts for the fiscal year then ended. These financial statements are the responsibility of First 5 California's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the audited entity, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund and related accounts as of June 30, 2011, and the results of operations and changes in fund balance thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund and related accounts as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the effectiveness of the internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we noted matters involving the internal control over financial reporting and its operation that we have reported to First 5 California management in a separate letter dated November 8, 2011.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund and related accounts' financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Fund management, those charged with governance, and the Legislature, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

David Botelho, CPA
Chief, Office of State Audits and Evaluations

October 28, 2011

First 5 California
Children and Families Trust Fund and Related Accounts
For the Fiscal Year Ended June 30, 2011

	Children and Families Trust Fund (0623)	Counties Account (0585)	Mass Media Communications Account (0631)	Education Account (0634)	Child Care Account (0636)	Research and Development Account (0637)	Administration Account (0638)	Unallocated Account (0639)
Assets								
Cash	$34,489,936	$ 406	$ 100	$ 926	$ 785	$ 676	$ 46,665	$ 152,686
Deposits in SMIF	8,429,000	33,184,000	29,428,000	39,859,000	24,289,000	17,149,000	23,526,000	3,776,000
Receivables	42,581,440						5,440	
Due from Other Funds[1]	2,162,720	70,147,315	5,522,249	4,434,083	2,658,285	2,652,895	904,817	4,787,641
Due from Other Governments								857,132
Prepaid Expenses							71,331	
Total Assets	$87,663,096	$103,331,721	$34,950,349	$44,294,009	$26,948,070	$19,802,571	$ 24,554,253	$9,573,459
Liabilities								
Accounts Payable			$ 3,007,450	$ 569,867	$ 1,748,742	$ 744,932	$ 47,404	
Due to Other Funds[1]	$87,658,824		535,704	1,206,454	747,339	759,251	146,042	
Due to Other Governments		$103,331,721		17,465,641	1,321,244	465,643		$4,147,005
Total Liabilities	87,658,824	103,331,721	3,543,154	19,241,962	3,817,325	1,969,826	193,446	4,147,005
Fund Balance								
Restricted for purposes specified in the *California Children and Families Act of 1998*[2]	4,272	0	31,407,195	25,052,047	23,130,745	17,832,745	24,360,807	5,426,454
Total Fund Balance	4,272	0	31,407,195	25,052,047	23,130,745	17,832,745	24,360,807	5,426,454
Total Liabilities and Fund Balance	$87,663,096	$103,331,721	$34,950,349	$44,294,009	$26,948,070	$19,802,571	$24,554,253	$9,573,459

The accompanying notes are an integral part of the financial statements.

[1] See Note 2
[2] See Note 3

Statement of Revenue, Expenditures and Changes in Fund Balance

First 5 California
Children and Families Trust Fund and Related Accounts
For the Fiscal Year Ended June 30, 2011

	Children and Families Trust Fund (0623)	Counties Account (0585)	Mass Media Communications Account (0631)	Education Account (0634)	Child Care Account (0636)	Research and Development Account (0637)	Administration Account (0638)	Unallocated Account (0639)
Revenue								
Cigarette Tax Revenue	$504,520,899							
SMIF Interest Revenue	163,290	$ 68,543	$ 184,025	$ 353,841	$ 173,764	$ 227,359	$ 115,722	$ 149,310
Other Revenue			635,635	843,523			521	
Total Revenue	504,684,189	68,543	819,660	1,197,364	173,764	227,359	116,243	149,310
Expenditures								
Appropriation Expenditures	14,229,862	376,272,005	27,985,835	35,379,379	11,886,339	13,160,390	4,994,197	128,244,205
Excess (Deficiency) of Revenues Over(Under) Expenditures	490,454,327	(376,203,462)	(27,166,175)	(34,182,015)	(11,712,575)	(12,933,031)	(4,877,954)	(128,094,895)
Other Financing Sources & Uses								
Operating Transfers In[4]		376,203,462	28,215,260	23,512,716	14,107,630	14,107,630	4,702,543	104,305,087
Operating Transfers Out	490,454,327[4]		6,000,000	35,000,000[3]	16,900,000[3]	37,000,000[3]		
Net Change in Fund Balance	0	0	(4,950,915)	(45,669,299)	(14,504,945)	(35,825,401)	(175,411)	(23,789,808)
Fund Balance July 1, 2010	4,272		36,358,110	70,721,346	37,635,690	53,658,146	24,536,218	29,216,262
Fund Balance June 30, 2011	$ 4,272	$ 0	$ 31,407,195	$25,052,047	$23,130,745	$17,832,745	$24,360,807	$5,426,454

The accompanying notes are an integral part of the financial statements.

[3] See Note 4
[4] See Note 5

First 5 California
Children and Families Trust Fund and Related Accounts
For the Fiscal Year Ended June 30, 2011

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The Children and Families Trust Fund (Fund) and its related accounts were created by the *California Children and Families Act of 1998* (Act). Programmatic and fiscal oversight for the Act was placed with the California Children and Families Commission (State Commission). Subsequent to the Act, legislation was passed that provided for the State Commission to also be known as First 5 California. The Act is intended to promote, support, and improve the early development of children from the prenatal stage to five years of age.

The programs authorized by this Act are administered by First 5 California and by county children and families commissions. The First 5 California Commission is made up of seven members. During fiscal year 2010-11 one seat was vacated and filled by a new commissioner.

Prior to January 1, 1999, the State Board of Equalization (BOE) was authorized to collect 37 cents for each cigarette pack distributed. On January 1, 1999, Section 30131.2 of the Revenue and Taxation Code authorized BOE to collect an additional 50 cents for each cigarette pack distributed and a surtax on other tobacco products for a total of 87 cents for each cigarette pack. Of the 87 cents collected, 50 cents is allocated and deposited into the Fund. The remainder funds the Proposition 99 and Breast Cancer programs.

While First 5 California has the full responsibility for the program and financial statements, BOE receives, accounts for, and deposits the Cigarette Tax revenue into the Fund. Furthermore, the Department of General Services performs accounting services for First 5 California.

The Fund was established to provide funding for promoting, supporting, and improving the early development of children from the prenatal stage to five years of age with emphasis on community awareness, education, nurturing, child care, social services, health care, and research. It primarily functions as a pass-through account which transfers funds to the seven related accounts according to allocation percentages established by the Act. The county commissions receive 80 percent of the funding and First 5 California receives 20 percent, which is allocated to six separate accounts that implement specific functions of the Act, as illustrated in Table 1.

Table 1: California Children and Families Trust Fund (0623)
Cigarette Tax Revenue Allocation

Account	Account Title	Percent Allocation	Account Purpose
0585	Counties Children and Families Account	80%	For allocation to county commissions[1] for the purposes authorized the *California Children and Families Act of 1998* (Act) and in accordance with each county's strategic plan. All county commission expenditures must be incurred in accordance with the provisions of the Health and Safety Code Section 130105 (d)(2).
0631	Mass Media Communications Account	6%	For funding of communications to the general public utilizing television, radio, newspapers, and other mass media furthering the goals and purposes specified in the Act.[2]
0634	Education Account	5%	For funding of education goals and purposes as specified in the Act[2].
0636	Child Care Account	3%	For funding for child care goals and purposes as specified in the Act[2].
0637	Research and Development Account	3%	For funding research and development goals and purposes as specified in the Act[2].
0638	Administration Account	1%	For funding of administrative costs and other purposes as specified in the Act[2].
0639	Unallocated Account	2%	For funding any other purposes of the Act except for administrative costs.

B. Basis of Presentation—Fund Accounting

The Fund and related accounts are classified as *Other Governmental Cost Funds* for State of California financial reporting purposes. *Other Governmental Cost Funds* are special revenue funds used to account for revenues restricted by law for specified purposes. The financial statements are presented in accordance with generally accepted accounting principles.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using a current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

[1] Each First 5 county commission is allocated funds from Account 0585 based on the number of live births recorded in each county in proportion to the entire number of live births recorded statewide. For the fiscal year 2009-10 allocations, the 2008 birth vital statistics compiled by the California Department of Public Health were used as this was the most recent reporting period available.

[2] Effective September 22, 2009, AB1422 amends the Act to allow any funds not needed in these five accounts to be transferred to the *Unallocated Account (0639)* upon approval by the First 5 California Commission.

D. Budget and Budgetary Control

The accounting policies of First 5 California conform to the State Administrative Manual (SAM) based on the State's budgetary provisions. Program funds are continuously appropriated without regard to fiscal year. First 5 California's management is responsible for exercising budgetary control to ensure that appropriations are not overspent at the Fund and related accounts level. The State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

E. Deposits in Surplus Money Investment Fund

Investments consist of cash in excess of current needs on deposit in the Surplus Money Investment Fund (SMIF). The Fund and related accounts participate in the State of California's Pooled Money Investment Program, whereby cash on deposit in the State Treasury determined to be in excess of immediate needs are transferred to the SMIF for investment purposes. All earnings derived from investments of the SMIF are apportioned to the contributing fund as provided in the Government Code.

F. Revenue

Revenue consists of the cigarette taxes collected on sales of cigarette packs and other tobacco products, interest income earned on funds deposited in the SMIF, refunds from reverted appropriations, and unclaimed checks escheated to the issuing fund.

G. Compensated Absences

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the *State of California Comprehensive Annual Financial Report.*

H. Retirement Plan

Employees of First 5 California are members of the California Public Employees' Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the *State of California Comprehensive Annual Financial Report*, and to the *CalPERS Comprehensive Annual Financial Report*.

NOTE 2 Due From Other Funds and Due To Other Funds

The Due From Other Funds includes cigarette tax and SMIF interest revenue accruals, and an adjustment for estimated versus actual BOE expenditures. Additionally, the Unallocated Account (0639) includes reimbursement accruals for School Readiness Program expenditures incurred on behalf of the other accounts.

Table 2: Due From Other Funds

Fund/Account	Fund/Account Due From	Amount
Fund 0623: Trust Fund		
	BOE General Fund (0001)	$2,126,138
	Surplus Money Investment Fund (0681)	36,582
	Total Due From Other Funds	$2,162,720
Account 0585: Counties		
	Children and Families Trust Fund (0623)	$70,127,060
	Surplus Money Investment Fund (0681)	20,255
	Total Due From Other Funds	$70,147,315
Account 0631: Mass Media		
	Children and Families Trust Fund (0623)	$5,259,529
	Health Care Deposit Fund (0912)	230,297
	Surplus Money Investment Fund (0681)	32,423
	Total Due From Other Funds	$5,522,249
Account 0634: Education		
	Children and Families Trust Fund (0623)	$4,382,941
	Surplus Money Investment Fund (0681)	51,142
	Total Due From Other Funds	$4,434,083
Account 0636: Child Care		
	Children and Families Trust Fund (0623)	$2,629,765
	Surplus Money Investment Fund (0681)	28,520
	Total Due From Other Funds	$2,658,285
Account 0637: Research and Development		
	Children and Families Trust Fund (0623)	$2,629,765
	Surplus Money Investment Fund (0681)	23,130
	Total Due From Other Funds	$2,652,895
Account 0638: Administration		
	Children and Families Trust Fund (0623)	$876,588
	Surplus Money Investment Fund (0681)	28,229
	Total Due From Other Funds	$904,817
Account 0639: Unallocated		
	Children and Families Trust Fund (0623)	$1,753,176
	Mass Media Communications Account (0631)	535,704
	Education Account (0634)	1,190,454
	Child Care Account (0636)	505,943
	Research and Development Account (0637)	744,032
	Surplus Money Investment Fund (0681)	58,330
	Total Due From Other Funds	$4,787,639

The Due To Other Funds represents the cigarette tax revenue accrued for transfer to the related accounts as of year-end, and School Readiness Program reimbursements to the Unallocated Account (0639) at year-end for the Early Start Program.

Table 3: Due To Other Funds

Fund/Account	Due From Fund/Account	Amount
Fund 0623: Trust Fund		
	Counties' Account (0585)	$70,127,059
	Mass Media Communications Account (0631)	5,259,529
	Education Account (0634)	4,382,941
	Child Care Account (0636)	2,629,765
	Research and Development Account (0637)	2,629,765
	Administration Account (0638)	876,588
	Unallocated Account (0639)	1,753,176
	Total Due To Other Funds	$87,658,824
Account 0631: Mass Media		
	Unallocated Account (0639)	$535,704
	Total Due To Other Funds	$535,704
Account 0634: Education		
	General Fund	$ 16,000
	Unallocated Account (0639)	1,190,454
	Total Due To Other Funds	$1,206,454
Account 0636: Child Care		
	General Fund	$241,396
	Unallocated Account (0639)	505,943
	Total Due To Other Funds	$747,339
Account 0637: Research and Development		
	General Fund	$ 15,217
	Unallocated Account (0639)	744,034
	Total Due To Other Funds	$759,251
Account 0638: Administration		
	General Fund	$ 91,023
	Various other funds	55,019
	Total Due To Other Funds	$146,042

NOTE 3 Fund Balance

First 5 California financial statements comply with the fund balance reporting requirement detailed in Statement Number 54 issued by the Governmental Accounting Standards Board (GASB 54) as required for financial statements issued after June 15, 2010. GASB 54 provides the following classifications of the fund balance.

A. *Nonspendable Fund Balance*: Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

B. *Restricted Fund Balance:* Amounts that are restricted to specific purposes because of constraints placed on the use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

C. *Committed Fund Balance*: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The highest level of decision-making authority for the Fund and related accounts is the State Commission and the formal action required to establish a fund balance commitment is a majority vote.

D. *Assigned Fund Balance*: Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Executive Director or designee per the State Commission Bylaws, pursuant to Health and Safety Code section 13030, can assign funds to contracts of up to $150,000 for purposes authorized in the Act.

E. *Unassigned Fund Balance*: The unassigned fund balance classification is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

In accordance with GASB 54 the entire fund balance is classified as Restricted because the Act comprises enabling legislation for the Fund and related accounts as outlined in Note 1.

NOTE 4 Unallocated Account (0639) Expenditures

On January 26, 2011, the State Commission authorized 2010-11 funding for the following two programs: (1) $81.4 million for the Healthy Families Program administered by the Managed Risk Medical Insurance Board (MRMIB); and (2) $50 million for the Early Start Program administered by the Department of Developmental Services (DDS). Payments totaling $131.4 million were made from the Unallocated Fund's Clearing Account.

The reported expenditure amount for Account 0639 includes abatements of $8.87 million for the return of funds from MRMIB for the Healthy Families Program previously transferred to MRMIB in 2008-09 and 2009-10.

Table 4: Unallocated Account (0639) Expenditures

Transferring Account	MRMIB	DDS	Total
Mass Media Communications Account (0631)	$ 6,000,000	$ 0	$6,000,000
Education Account (0634)	15,000,000	20,000,000	35,000,000
Child Care Account (0636)	13,400,000	3,500,000	16,900,000
Research and Development Account (0637)	26,500,000	10,500,000	37,000,000
Transfer in subtotal	**60,900,000**	**34,000,000**	**94,900,000**
From Fund 0639	20,500,000	16,000,000	36,500,000
Total expenditures for MRMIB and DDS			$131,400,000
Other expenditures			5,714,849
Less: Abatements from MRMIB			(8,870,644)
Expenditures from Unallocated Fund 0639			**128,244,205**

NOTE 5 Operating Transfers

Legally authorized transfers between state funds are reported on the *Statement of Revenue, Expenditures, and Changes in Fund Balance* as Operating Transfers In or Operating Transfers Out, and are accounted for as increases or decreases in residual equity.

The Fund's Operating Transfers Out represents the sum of the operating transfers into the seven related accounts and the statutorily required backfill of $20.2 million for the Proposition 99 and Breast Cancer programs. The Transfers In for the seven related accounts are calculated based on the applicable allocation percentages specified in Note 1. Balances are derived as follows:

Table 5: Operating Transfers

Cigarette Tax Revenue (Fund 0623):	
Current Year	$504,520,899
SMIF Interest Revenue	163,290
Board - State Operations	(14,229,862)
Total Operating Transfers Out	490,454,327
Backfill	(20,200,000)
Total Operating Transfers In Related Accounts	$470,254,327

Section 130105 of the Health and Safety Code requires the Fund on an annual basis to backfill the loss of funding for certain Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) and Breast Cancer Fund programs to offset the revenue loss from declining cigarettes and tobacco product consumption resulting from the imposition of additional taxes on cigarettes and tobacco products by the Act. BOE makes the fiscal determination and transfers the appropriate funds.

NOTE 6 **Contingent Liabilities**

A. First 5 California Legal Proceedings

1. SEIU v. Schwarzenegger, et al. Case Numbers RG09456750 and RG010516259. Each of these cases relate to petitioners challenging the validity of the Governor's Executive Orders furloughing state employees in special fund departments for various days per month. These cases are filed in various courts and in various different counties. First 5 California is a respondent in two of the three cases filed and is represented by the Department of Personnel Administration (DPA) in this litigation. These cases are still in active litigation and pending judicial decisions. First 5 California's total furlough liability for all three years of the furlough program (2008-09 through 2010-11) is approximately $735,000.

2. Assembly Bill Number 99, Chapter 4, 2011, authorizes $50 million dollars from the First 5 California accounts, including reserve funds, upon approval of the state commission, be transferred to and deposited in the Children and Families Health and Human Services Fund (CFHHS Fund) to support state health and human services programs for children from birth through five years of age. The bill also authorizes $950 million from the combined balances of all the county Children and Families Trust Funds be transferred to the CFHHS Fund. To date, eight counties have filed actions challenging the legality of AB 99 and three counties have intervened in existing litigation or expressed in court filings their intent to intervene. The named respondents include Governor Brown, State Controller Chiang, and the Director of the Department of Finance. In summary, all the Petitions for Writ of Mandate contend that AB 99 unlawfully amended the California Children and Families Act and illegally expropriate $1,000,000,000 in trust funds contrary to the language, purpose and intent of Proposition 10. As all of the actions are challenging AB 99 on the same or similar grounds, all six matters have been transferred, coordinated, and consolidated in the Superior Court for the County of Fresno, Court Case Number 11CECG01077. It is anticipated that the Court's ruling should be issued on or before November 28, 2011. The parties will have 60 days from the date of the ruling to file an appeal.

B. BOE Legal Proceedings

BOE is involved in legal proceedings that, if decided against BOE, may result in a loss of funds available for transfer to the various programs supported by tobacco taxes. No provision for the potential liability has been made in the financial statements.

1. Taxpayers filed a refund lawsuit on December 5, 2007, for tobacco taxes paid. These taxpayers are the shareholders and officers of a corporation, who had continued distributing cigarettes and tobacco products after the corporation was suspended for failure to pay franchise taxes. BOE asserted controlling person liability against taxpayers under the Cigarette and Tobacco Products Tax Law. On February 23, 2009, the trial court entered judgment in favor of taxpayers in the amount of $69,763 plus interest. Subsequently, the trial court awarded attorneys' fees to taxpayers under Code of Civil Procedure section 1021.5 in the amount of $627,797. BOE appealed both the judgment and the attorneys' fee award. The appellate court reduced the tax refund awarded to the plaintiffs, limiting it to the $1,500 actually paid in taxes plus interest, and remanded the matter of attorney's fees back to the trial court to clarify its finding and recalculate the attorney's fees award if appropriate. The impact to the Fund is estimated at 36.5 percent of the total award.

2. Various tobacco retailers have filed claims for refunds for the tax year 2008-2009, claiming that the methodology used in setting the tax rate for the fiscal year was improper. These refund claims are currently in the administrative appeals process and total $465,920. The impact to the Fund is estimated at 36.5 percent of the total refunds.

3. A tobacco products distributor has been audited and a liability totaling $5,557,468, including penalties and interest, has been assessed for the audit periods February 2006 through December 2008. The assessment was appealed, and the case is in the administrative appeals process. The impact to the Fund is estimated at 36.5 percent.

NOTE 7 Subsequent Events

A. On October 19, 2011, the State Commission approved funding up to $135 million over three years, beginning in 2012-13, ($45 million annually) for the Child Signature Program—Power of Preschool.

B. On October 19, 2011, the State Commission authorized First 5 California to extend and fund $31.4 million for the Parent Signature Program—Education and Outreach project beginning in 2012-13.

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

November 8, 2011

Ms. Kris Perry, Executive Director
First 5 California
2389 Gateway Oaks Drive, Room 260
Sacramento, CA 95833

Dear Ms. Perry:

Management Letter—First 5 California, 2011 Financial Statement Audit of the Children and Families Trust Fund and Related Accounts

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its financial audit of the First 5 California's Children and Families Trust Fund (Fund) and related accounts for the fiscal year ended June 30, 2011. In planning and performing our audit of the financial statements of the Fund and related accounts for the fiscal year then ended, we considered the internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. During our audit we became aware of two matters that present an opportunity for strengthening internal control over the Fund. This management letter summarizes our comments and suggestions regarding this matter.

CALSTARS Access

The Department of General Services, Contracted Fiscal Services (CFS), performs the accounting services for the Fund and related accounts. The CALSTARS access for CFS staff should be granted on an individual basis with individual user IDs and passwords. Each staff's access should be limited to only the CALSTARS functions required to perform their specific duties. Additionally, individual CFS staff should only have CALSTARS access to the accounting records for the department(s) for which they personally perform accounting services. Currently, CFS staff access CALSTARS using one of two group user ID and passwords. The group user ID and passwords allow access to various functions in CALSTARS for all staff in a group and to all of the departments for which CFS maintains the accounting records. Limiting the CALSTARS access will provide better oversight over transactions entered into CALSTARS and promote accountability of staff.

Reconciliation Documentation

While the First 5 California staff perform procedures to reconcile the CALSTARS and First 5 California records, this process is not adequately documented. After the reconciliation is performed, documentation regarding the specific records reconciled, the results of the reconciliation, when and who prepared the reconciliation, and when and who reviewed and verified the reconciliation results cannot be confirmed. Strengthening the reconciliation documentation will provide assurance to management that any errors due to error or fraud are identified and corrected timely.

The Financial Integrity and State Manager's Accountability Act of 1983 (Government Code sections 13400-13407) requires that the head of each state agency establish and maintain an adequate system of internal control within their agencies. Key elements in a system of internal control are access controls to information systems, separation of duties, and timely reconciliations.

We recommend strengthening internal control as follows:

1. CFS should assign individual CALSTARS username accounts and passwords to CFS staff and limit access to only those functions and department records required by staff to perform their duties.

2. CFS should ensure that the duties and CALSTARS access assigned to staff are adequately separated.

3. First 5 should implement procedures to adequately document the reconciliations between the CALSTARS and First 5 records.

This letter is intended as an internal management tool to assist the Fund's management in improving internal control and accountability. We appreciate the assistance and cooperation of the Fund's management and staff. If you have any questions regarding this letter, please contact Kimberly Tarvin, Manager, or Alma Ramirez, Supervisor, at (916) 322-2985.

Sincerely,

David Botelho, CPA
Chief, Office of State Audits and Evaluations

cc: Ms. Marsha Jones, Chief Deputy Director, First 5 California
Ms. Kim Gauthier, Chief Counsel, First 5 California
Ms. Terry L. Miller, Chief, Administrative Services Division, First 5 California
Ms. Sandra Beck, Fiscal Operations Manager, First 5 California
Ms. Kristine Cazadd, Executive Director, California State Board of Equalization
Ms. Liz Peralta, Chief Accounting Officer, Accounting Section, State Board of Equalization
Mr. Mike Skikos, Acting Chief, Internal Audit Division, State Board of Equalization
Mr. Jim Martone, Acting Chief, Contracted Fiscal Services, Department of General Services
State Controller's Office, Division of Audits, First 5 Oversight Unit

FIRST 5 CALIFORNIA

December 22, 2011

David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Botelho:

Thank you for the opportunity to respond to the Department of Finance, Office of State Audits and Evaluations' Management Letter titled "First 5 California, 2011 Financial Statement Audit of the Children and Families Trust Fund and Related Accounts." We appreciate the thoroughness of the audit and recommendations for strengthening our internal controls.

First 5 California contracts with the Department of General Services (DGS) to perform a variety of fiscal services. Two of the three recommendations mentioned in the Management Letter fall within DGS jurisdiction and DGS has provided the following response:

CALSTARS Access

Department of Finance Recommendations No. 1 and No. 2: Contracted Fiscal Services (CFS) staff should be granted on an individual basis with individual user IDs and passwords in order to limit the CALSTARS functions to only those required to perform the individual's specific duties.

CALSTARS access for Department of General Services, Contracted Fiscal Services (CFS) staff should be granted on an individual basis with individual user IDs and passwords in order to limit the CALSTARS functions to only those required to perform the individual's specific duties.

CFS is a full service accounting office, providing accounting services to approximately 40 CALSTARS agencies. CFS' current CALSTARS access structure consists of two levels; the first is a unique user ID and password for each client agency, the user ID is then split into a lower level indicative of the two main accounting functions (Accounts Payable and General Ledger) performed by our office. This structure enables CFS staff performing the same function to conveniently cross-train, provide backup support, and review similar structures and transactions utilized by other client agencies to assist with their own clients. With other levels of review and controls in place, CFS feels the risk of misuse is low under the current CALSTARS access structure. In addition, the existing CALSTARS access structure has been tested during previous audits and no exceptions were noted. However, CFS management agrees with DOF and believes that individual user IDs for each staff member will promote accountability of staff by making transactions traceable to a single user ID. For this reason, we will be implementing the recommendation within the next year and believe it will strengthen CFS' existing internal controls. Supervisory staff will maintain access to all CFS client agencies to allow for issue resolution and research/review capabilities, while all other staff will only have access to their respective clients.

The third recommendation noted in the Management Letter pertains to work performed by First 5 California staff and our response follows.

Reconciliation Documentation

Department of Finance Recommendations No. 3: First 5 California staff should implement procedures to document the reconciliations between the CALSTARS and First 5 California records.

First 5 California performs monthly reconciliation of CALSTARS reports to First 5 California financial records to ensure accuracy of financial transactions. First 5 California Management agrees with DOF that in addition to reconciling the reports, implementing procedures to sign and certify the monthly reconciliation reports will strengthen our internal control practices.

We want to thank you and your audit team again for conducting a professional and through financial statement audit for our agency.

Sincerely,

Kris Perry
Executive Director
First 5 California

KP: sb

cc: Jim Martone, Acting Chief, Contracted Fiscal Services, Department of General Services
Kristine Cazadd, Executive Director, California State Board of Equalization
Liz Peralta, Chief Accounting Officer, Accounting Section, State Board of Equalization
Mike Skikos, Acting Chief, Internal Audit Division, State Board of Equalization
State Controller's Office, Division of Audits, First 5 Oversight Unit

AGENDA ITEM 5
January 18, 2012
Attachment D

State of California

Board of Equalization
Legislative and Research Division

Memorandum

To: Honorable Jerome E. Horton, Chairman
Honorable Michelle Steel, Vice Chair
Honorable Betty T. Yee, First District
Senator George Runner (Ret.), Second District
Honorable John Chiang, State Controller

Date: October 26, 2011

From: Joe Fitz, Chief Economist
Research and Statistics Section

Subject: **EFFECTS OF PROPOSITION 10 ON CIGARETTE AND TOBACCO PRODUCTS CONSUMPTION**

NOVEMBER 15, 2011 BOARD MEETING

Prior to 1989, California had a $0.10 per pack excise tax on cigarettes. Proposition 99 increased the cigarette tax by $0.25 per pack, effective January 1, 1989. A tax of $0.02 per pack was added to fund breast cancer research and education programs in 1994, bringing the total tax to $0.37 per pack. Proposition 10 increased the cigarette tax from $0.37 per pack to $0.87 per pack, effective January 1, 1999.

California tax-paid cigarette distributions have decreased dramatically over the past 30 years, both before and after Proposition 10. As a result, revenues for all funds supported by cigarette taxes have declined as well. Based on outcomes from similar tax increases, there is strong evidence that the Proposition 10 tax increase results in greater declines in annual cigarette and tobacco sales than would have been the case had the Proposition not passed.

Section 130105(c) of the Health and Safety Code, as added by Proposition 10, requires the Board to determine the effect of Proposition 10 on the consumption of cigarettes and tobacco products and directs that a transfer of funds to Proposition 99 and Breast Cancer programs be made to backfill for revenue losses to those programs resulting from consumption changes triggered by Proposition 10. The intent of the backfill is to keep the funding levels of certain Proposition 99 and breast cancer programs from declining any more than they would have decreased without the Proposition 10 tax increase.

These determinations do not affect the amount of taxes paid by taxpayers. The Proposition 10 backfill determination is strictly an issue of the magnitude of funds allocation from one set of funds to another. The determination increases funds specified by statute to be spent on health education, health research, breast cancer education, and breast cancer research and decreases funds that would have gone to the California Children and Families First Trust Fund without the determination. (See Attachment 1 for a detailed breakout of the cigarette taxes.)

We recommend that a backfill determination of $16.5 million for fiscal year 2010-11 be approved by the Board as an item on the Administrative Consent Agenda of November 15, 16, and 17, 2011. The transfer would be made from revenues received in fiscal year 2011-12 to backfill funds affected by changes in consumption during fiscal year 2010-11.

Last year the Board approved a total backfill figure of $20.2 million for fiscal year 2009-10. This year's proposed backfill figure of $16.5 million for fiscal year 2010-11 is $3.7 million less.

Yearly variation is to be expected because determinations are not simply linear trends. As discussed in Attachment 2, backfill determinations are the results of multiple calculations involving population, tax-paid distributions, cigarette prices, federal and state excise taxes, and the California consumer price index.

While variations in yearly backfill determinations are to be expected, the size of the difference this year, $3.7 million, is greater than it has been in any year since 2002-03. There are two major reasons for the relatively large difference. First, the California Department of Finance revised population data from 2000 to 2010 using figures from the 2010 U.S. census, which were released in March 2011. The figures show differences for all years between the 2000 and the 2010 censuses, and the ones towards the end of the period are especially large. The latest data show July 1, 2009 population to be about 1.3 million fewer civilian California residents than the data we had available one year ago, which did not reflect the 2010 census. Population is a key factor in the backfill determination model for cigarettes, and the data revisions caused major changes in model results. We estimate that the impacts of this data revision reduced the size of the backfill determination by about $1.6 million.

Another factor reducing the size of the backfill determination is a residual effect of the federal cigarette and tobacco tax increases that became effective April 1, 2009. Fiscal year 2010-11 was the first year that the tobacco tax rate, which is set annually by the Board of Equalization, included the tax increase in its estimate of the average wholesale costs of cigarettes in the backfill determination. With a higher wholesale price now reflecting the $0.62 per pack federal tax increase, and the unchanged (since 1999) Proposition 10 tax, the Proposition 10 tax became a lower percentage of the price than it was in previous years. As a result of the backfill determination calculations for tobacco products (shown in Tables 2A and 2B of the attached memo) we estimate that the backfill was reduced by an additional $0.4 million from what it would have been without the federal cigarette tax increase.

The combined effect of both the census population revisions and the federal tax increase was to reduce the backfill by about $2.0 million from that adopted by the Board in November 2010. This is more than half of the $3.7 million difference, and the remaining difference is not unusual compared to those observed in other years.

The $16.5 million total backfill figure is approximately 3.2 percent of the $512.1 million in total revenues for the California Children and Families First Commission in fiscal year 2009-10.

Table 1 of Attachment 2 summarizes the calculations necessary to derive the proposed backfill figure. Breaking down this $16.5 million quantity, the proposed transfer to breast cancer programs is $3.7 million, and the proposed transfer to targeted Proposition 99 programs is $12.8 million.

JF:jm

Attachments

cc: Ms. Ana J. Matosantos, Director, Department of Finance
Ms. Kristine Cazadd, Executive Director
Mr. Randy Ferris, Acting Chief Counsel
Mr. Robert Lambert
Mr. Robert Ingenito

Honorable Jerome E. Horton, Chairman October 26, 2011

Recommendation by:

Joe Fitz

Joe Fitz, Chief Economist
Research and Statistics Section
Legislative and Research Division

Approved:

Kristine Cazadd

Ms. Kristine Cazadd
Executive Director

BOARD APPROVED

at the ____________________________ Board Meeting

____
Diane G. Olson, Chief
Board Proceedings Division

Attachment 1
September 15, 2011

Breakdown of Cigarette Taxes

Tax of 87 Cents on a 20-Count Pack of Cigarettes

Pack 87¢	Initial Fund	Target Fund or Agency		Account		Program		Purpose
10¢	Cigarette Tax Fund	100%	General Fund					
2¢	Cigarette Tax Fund	100%	Breast Cancer Fund	50%	Breast Cancer Research Account 1/	10%	Cancer Surveillance Section	Conduct epidemiological research on the rate of breast cancer occurrence in the population.
						90%	Breast Cancer Research Program	Research the cause, cure, treatment, and earlier detection of breast cancer.
				50%	Breast Cancer Control Account 1/			Provide screening, referral, advocacy, outreach, and education services for uninsured and underinsured women.
25¢	Cigarette and Tobacco Products Surtax Fund	100%	Cigarette and Tobacco Products Surtax Fund	20%	Health Education Account 1/		School and community health education programs	Prevent and reduce tobacco use, primarily among children.
				35%	Hospital Services Account			Treat people who cannot afford to pay for hospital services and are not covered by insurance or a federal program.
				10%	Physician Services Account			Treat people who cannot afford to pay physician services and are not covered by insurance or a federal program.
				5%	Research Account 1/			Research tobacco-related diseases.
				5%	Public Resources Account	50%		Restore, protect, enhance, or maintain fish, waterfowl, and wildlife habitat.
						50%		Enhance state and local park and recreation resources.
				25%	Unallocated			Provide monies for any of the purposes to which money is allocated from the surtax fund.

1/ Programs to receive transfers from Proposition 10 funds.

Breakdown of Cigarette Taxes

Tax of 87 Cents on a 20-Count Pack of Cigarettes

Pack 87¢	Initial Fund	Target Fund or Agency		Account		Program		Purpose
50¢	California Children and Families First Trust Fund	20%	CC&FF State Commission	30%	Mass Media Communications Account			Communicate to general public on childhood development, child care, and health and social services; prevention of tobacco, alcohol, and drug use by pregnant women; detrimental effect of second-hand smoke on children.
				25%	Education Account			Develop educational materials; provide professional and parental education and training; provide technical support to CC&FF county commissions.
				15%	Child Care Account			Educate and train child care providers; develop educational materials and guidelines for childcare workers.
				15%	Research and Development Account			Determine best practices of and assess early childhood development programs and services.
				5%	Administration Account			Cover administrative expenditures of the CC&FF State Commission.
				10%	Unallocated Account			Provide monies for any of the purposes of the CC&FF Act except administrative expenditures.
		80%	CC&FF County Commissions					Provide, sponsor, or facilitate programs relating to early childhood development; measure outcomes; integrate childhood development programs, services, and projects into a consumer-oriented and easily accessible system.

Attachment 2

Proposition 10 Backfill Methodology and Documentation of Calculations

I. Methodology

Cigarette Consumption Impacts. We continue to estimate California cigarette consumption with an econometric equation that is similar to those used in other studies found in the literature. The model isolates California excise taxes from other relevant factors affecting consumption.[1] As in previous years, we updated the data and used our econometric model to estimate the cigarette consumption impacts of Proposition 10.[2]

Using the same methodology we used last year, we calculated the difference in consumption with and without Proposition 10 using model-generated estimates of actual consumption in both cases. The model is run twice, with two different tax rates, $0.37 per pack before Proposition 10 and $0.87 per pack after Proposition 10. Since the only difference in the model calculations is from the difference in the two tax rates, all other factors which affect tax-paid distributions in the model are the same, including federal taxes.

In the model percentage changes in cigarette consumption per capita are related to percentage changes in cigarette prices, federal excise taxes, and California excise taxes. All dollar figures are converted to constant dollars using the California consumer price index. Our model for estimating cigarette consumption is specified in terms of packs of cigarettes per capita. To calculate total consumption, we multiply the model-projected per capita consumption estimate by California civilian population.[3]

Tobacco Products Consumption Impacts. To estimate the impacts of Proposition 10 on tobacco products[4], we assumed a typical relationship between price and consumption based on our review of studies of such relationships for cigarettes and tobacco products. Specifically, BOE staff assumed a price elasticity of demand of -0.50. We then applied this relationship to the increase in tax rates caused by Proposition 10 (as reflected in the price of the product to the consumer) to estimate the resulting decline in consumption of tobacco products. We assumed the entire tax increase was passed on to consumers in the form of higher prices, again based on our review of the literature.

The -0.5 price elasticity figure means that every 10 percent increase in the price of tobacco products would result in a 5 percent decline in quantity consumed or dollar volume sales. We have the data to calculate the percentage price increase resulting from additional taxes due to Proposition 10. Knowing this percentage price increase and assuming a price elasticity figure enabled us to determine an expected sales decline.

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1 Copies of the documentation of the model are available upon request from Joe Fitz, Chief Economist, Research and Statistics Section, (916) 323-3802.

2 As used throughout this discussion, the term "consumption" refers to tax paid distributions.

3 The model uses California civilian population, beginning fiscal year July 1, to mathematically scale total California tax-paid cigarette distributions. Including minors in these calculations has no significant effect on model results since model results are multiplied by the same scaling factor.

4 As defined in statute, "tobacco products" exclude cigarettes.

through an algebraic solution. Then we applied the Proposition 99 tax rate to the predicted amount by which these dollar sales declined to estimate the Proposition 99 revenues that would have been expected without the Proposition 10 tax increase.

II. Documentation and Explanation of Backfill Calculations for Proposition 99 and Breast Cancer Programs

Cigarette Consumption Impacts

Sections 1 and 2 of Table 1 show the calculations necessary for estimating the backfill amount resulting from changes in cigarette consumption.

July 1, 2010 civilian population of California is estimated by the California Department of Finance to have been approximately 37.218 million people.[5] The statistical model shows that per capita consumption of cigarettes would have been 30.5 packs per person without Proposition 10. Multiplying these two figures yields an estimate of 1,135.1 million packs of cigarettes (far right column of Section 1 of Table 1). The statistical model estimates per capita consumption of cigarettes of 25.5 packs per person using the current tax rate of $0.87 per pack. When multiplied by civilian population, the model estimates tax paid distributions of 949.1 million packs. The difference in these two estimates is 186.0 million fewer packs of cigarettes sold with Proposition 10 in effect than without Proposition 10. Some of this decline in consumption may have been caused by increased cigarette tax evasion. However, based on previous studies, most of the decline probably results from reduced cigarette consumption.

Section 2 of Table 1 shows the calculations necessary to derive revenue losses associated with 186.0 million fewer packs of cigarettes incurred by backfill-targeted programs. The Breast Cancer programs are funded by a tax rate of two cents per pack. Multiplying $0.02 by 186.0 million packs yields a result of approximately $3.7 million. The tax rate funding all Proposition 99 programs is twenty-five cents per pack, of which 25 percent is to be backfilled. Therefore, the backfill amount for Proposition 99 programs is $0.0625 per pack ($0.25 x .25 = $0.0625). Multiplying $0.0625 times 186.0 million packs yields a result of approximately $11.6 million. The total backfill amount related to decreased cigarette sales for the Breast Cancer programs and the targeted Proposition 99 programs combined is $15.3 million ($3.7 + $11.6 = $15.3).

Tobacco Products Consumption Impacts

Section 3 of Table 1 summarizes the result of calculations made to derive estimates of revenues from sales of tobacco products that would have funded Proposition 99 programs in the absence of the Proposition 10 tax.[6] Our backfill estimate for tobacco products is $1.2 million. The calculations are shown in Table 2A.

Table 2A shows how we algebraically solved for the predicted sales change using the price elasticity of demand formula shown at the top of Table 2A. The table has four components in addition to the formula, which are marked off by horizontal lines. The first

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[5] The model is specified using July 1 California civilian population for the beginning day of the fiscal year. Therefore, to calculate total cigarette consumption for fiscal year 2010-11, we need to use July 1, 2010 California civilian population. The source of the July 1, 2010 population figure is from an e-mail from staff at the California Department of Finance Demographic Research Unit.

[6] The Breast Cancer programs do not receive revenues from sales of tobacco products, only from sales of cigarettes.

column of the table shows the row letters of each line. Lines (a) through (e) show the steps involved in determining the percentage increase in price caused by Proposition 10. As shown in line (e) of the table, Proposition 10 increased the price of tobacco products in fiscal year 2010-11 by 19.93 percent. Lines (f) and (g) show the calculations made to determine the resulting decrease in sales of 9.96 percent. Lines (h) through (l) display calculations made to apply the tax to the decline in sales. BOE tax return data show fiscal year sales of $210.88 million in 2010-11 (line h). Line (i) shows the $232.99 million result of solving the price elasticity of demand formula (details shown in Table 2B). Line (j) shows that these figures imply a sales decline of $22.11 million. Multiplying this figure by the Proposition 99 tax rate of 20.97 percent results in a total Proposition 99 revenue loss of $4.64 million (line l). Multiplying this figure by 0.25 (since Proposition 99 programs to be backfilled receive 25 percent of Proposition 99 revenues collected) results in a figure of $1.16 million (line m). Mathematically rounding off this figure produces a result of $1.2 million less in revenues from sales of tobacco products that would have funded Proposition 99 programs, as shown in Table 1.

Summary of Total Backfill Changes

Cigarette tax revenues comprise about 93 percent of the entire backfill estimate amount. (Of the $16.5 million backfill total, $15.3 million is related to cigarette consumption changes. The rest, $1.2 million, is related to changes in tax paid consumption of tobacco products.) Section 4 of Table 1 summarizes the figures computed for the backfill amounts from Sections 1 through 3. The total backfill amount is $16.5 million, with $3.7 million going to Breast Cancer programs and $12.8 million going to the specified Proposition 99 programs. Of the $12.8 million going to Proposition 99 programs, $10.2 million will go to the Health Education Account (which receives 20 percent of Proposition 99 revenues) and $2.6 million will go to the Research Account (which receives 5 percent of Proposition 99 revenues).

Historical Consumption and Sales

Table 3 provides some additional background information on tax-paid cigarette and tobacco products consumption. The table shows tax-paid cigarette distributions from fiscal years 1987-88 through 2010-11 (preliminary data). It also shows tax-paid wholesale sales of tobacco products from fiscal years 1990-91 through 2010-11 (preliminary data).

Table 1
Summary of Backfill Calculations for Proposition 99 and Breast Cancer Programs
Fiscal Year 2010-11

(1) Change in California Cigarette Consumption a/

	Estimated July 1, 2010 Civilian California Population (Millions) b/	Estimated Per Capita Consumption (Packs/Person) c/	California Cigarette Consumption (Million Packs)
Model Estimated Cigarette Consumption:	37.218		
Without Proposition 10		30.5	1,135.1
With Proposition 10		25.5	949.1
Difference			-186.0

(2) Changes in Cigarette Revenue

	Backfill Tax Rate (Dollars Per Pack)	Estimated Change in Consumption (Million Packs) d/	Estimated Change in Revenue ($ Millions)
Breast Cancer Programs	0.0200	-186.0	-$3.7
Proposition 99 Programs e/	0.0625	-186.0	-$11.6
Total	0.0825		-$15.3

(3) Change in Tobacco Products Revenue
(See Tables 2A and 2B for Calculations)

	Estimated Change in Revenue ($ Millions)
Proposition 99 Programs f/	-$1.2

(4) Summary of Total Fund Backfill Changes

	Accounts (Millions of Dollars)	Programs (Millions of Dollars)
Breast Cancer Programs		-$3.7
Proposition 99 Programs		-$12.8
Health Education Account (20% of Proposition 99 Funds)	-$10.21	
Research Account (5% of Proposition 99 Funds)	-$2.55	
Total Backfill Amount, All Programs		-$16.5

Note: All numbers are rounded off from original spreadsheet figures in order for them to sum to the specified totals.
a/ Consumption here and throughout the rest of this table refers to tax-paid consumption.
b/ Source: California Department of Finance.
c/ Source: BOE Research and Statistics Section econometric cigarette consumption estimation model.
d/ Source: Total change in consumption calculated above.
e/ As specified in Proposition 10, 25 percent of the Proposition 99 tax rate of $0.25 per pack tax is to be backfilled. This percentage is $0.0625 per pack ($0.25 x 0.25).
f/ This figure is 25% of the revenue loss due to decreased sales caused by the Proposition 10 tax increase.

Source: BOE Research and Statistics Section. September 15, 2011

Table 2A

Revenue Change in Tobacco Products, Proposition 10 Backfill

Fiscal Year 2010-11

Price Elasticity of Demand Formula: $e_p = (Q_1 - Q_2) / ((Q_1 + Q_2)/2) / (P_1 - P_2) / ((P_1 + P_2)/2)$

Where (generally): P = price, and Q = sales of tobacco products

Alternatively stated, e_p = average % change in sales / average % change in price

Assume $e_p = -0.50$, based on review of the literature

Line #	Data Description or Calculations		Result
Solving for the percentage change in tobacco products price:		A/	
a	Average wholesale cost per pack of 20 cigarettes		$4.15
b	Proposition 10 tobacco products equivalent per pack rate		$1.00
c	Other per pack taxes		$0.37
d	Estimated per pack cost, including taxes (line a + line b + line c)		$5.52
e	Estimated change in per pack cost due to Proposition 10, % [line b / ((line a + line c + line d) /2)]		19.93%
Solving for the percentage change in tobacco products sales:			
f	Assumed price elasticity of demand = -0.50		-0.50
g	Estimated percent change in sales of tobacco products, % (line e x line f)		-9.96%
Applying Proposition 99-only portion of 2010-11 tax to predicted change in sales:			
h	California wholesale sales of tobacco products (excluding taxes), FY 2010-11, millions of dollars	B/	$210.88
i	Estimated wholesale sales of tobacco products without Proposition 10, million $ (Table 2B, line 5)		$232.99
j	Estimated decline in wholesale sales of tobacco products due to Proposition 10, million $ (line h - line i)		-$22.11
k	Tobacco products tax rate, excluding Prop. 10, % ($0.87 / 20 / wholesale cigarette cost / stick)	C/	20.97%
l	Estimated taxes lost due to the decline in sales caused by Proposition 10, million $ (line j x line k)		-$4.64
Applying proportion of Proposition 99 revenue loss to backfill Proposition 99 target accounts:			
m	Estimated 2010-11 backfill, million $, line l * 0.25 (25% of all Proposition 99 programs are backfilled)		-$1.16

A/ Substituting the equivalent per-pack rate of $1.00 for the tobacco products tax change caused by Proposition 10 and using the sum of wholesale cost per pack and total per-pack taxes to calculate change in price isolates the change in price of tobacco products caused by Proposition 10. This is because the tax rate on tobacco products is the sum of the combined rate of tax on cigarettes imposed by Proposition 99 and the rate of tax on cigarettes imposed by Proposition 10 divided by the wholesale price of cigarettes. The change in the numerator of the tobacco products tax rate formula brought about by Proposition 10 is $1.00 per pack--50 cents from the Proposition 99 combined rate of tax on cigarettes and 50 cents from the Proposition 10 tax on cigarettes. An increase in cigarette taxes will increase the tobacco products tax rate if wholesale cost is held constant. Conversely, an increase in wholesale cost will decrease the tobacco products tax rate if cigarette taxes are held constant.

B/ Source: Board of Equalization Excise Taxes Division, "Big Return Report Annual Summary," line number 7, run 9/6/11.

C/ Note: The tobacco products tax rate excluding Proposition 10 is comprised of the original tobacco products rate ($0.25), the general fund rate ($0.10), the Breast Cancer rate ($0.02) and the rate associated with Proposition 10 ($0.50), for a total rate excluding Proposition 10 of $0.87. There are no separate non-Proposition 99 rates on tobacco products. Tobacco products are only taxed by Propositions 99 and 10; general fund and Breast Cancer excise taxes only apply to cigarettes.

Source: BOE Research and Statistics Section, September 15, 2011.

Table 2B

Arc Elasticity Calculations, Tobacco Products, Solving for Q_2 With Known P_1, P_2, Q_1 and Elasticity

		Line Number	
P_1	[Retail price per pack equivalent (includes excise taxes) Current Law, Table 2A, line d]	1	$5.52
P_2	[Retail price per pack equivalent (Without Proposition 10), line 1 - Table 2A, line b]	2	$4.52
Q_1	[Wholesale Sales (Million Dollars, Current Law), Table 2A, line h]	3	$210.88
Elasticity	[Table 2A, line f]	4	-0.50
Q_2	[Estimated Wholesale Sales Without Proposition 10 (Million Dollars), see equation below]	5	$232.99

Arc elasticity of demand formula, solving for Q_2:

$$Q_2 = ((-P_1{*}Q_1) - (Q_1{*}P_2) - (E{*}P_2{*}Q_1) + (E{*}P_1{*}Q_1)) / ((E{*}P_2) - P_2 - (E{*}P_1) - P_1)$$

Where:

E = price elasticity of demand;

Q_1 is quantity demanded in time period 1;

Q_2 is quantity demanded in time period 2;

P_1 is the price in time period 1;

P_2 is the price in time period 2.

Source: BOE Research and Statistics Section, September 15, 2011.

Table 3
Historical California Tax-Paid Cigarette Distributions and Sales of Tobacco Products

Fiscal Year	Tax Paid Cigarette Distributions (Millions of Packs) a/	Percent Change	Wholesale Sales of Tobacco Products (Millions of Dollars) b/	Percent Change
1987-88	2,570	-1.0%	n.a.	n.a.
1988-89	2,353	-8.4%	n.a.	n.a.
1989-90	2,219	-5.7%	n.a.	n.a.
1990-91	2,102	-5.3%	67.9	n.a.
1991-92	2,050	-2.5%	74.0	9.0%
1992-93	1,923	-6.2%	77.0	4.1%
1993-94	1,824	-5.1%	83.9	9.0%
1994-95	1,791	-1.8%	92.4	10.1%
1995-96	1,742	-2.7%	109.4	18.3%
1996-97	1,716	-1.5%	178.0	62.7%
1997-98 c/	1,668	-2.8%	130.7	-26.5%
1998-99	1,523	-8.7%	113.9	-12.9%
1999-00	1,353	-11.2%	95.9	-15.8%
2000-01	1,288	-4.8%	90.9	-5.2%
2001-02	1,237	-4.0%	77.1	-15.2%
2002-03	1,196	-3.3%	80.8	4.8%
2003-04	1,184	-1.0%	94.7	17.3%
2004-05	1,187	0.3%	114.8	21.2%
2005-06	1,190	0.3%	123.6	7.7%
2006-07	1,158	-2.7%	151.4	22.5%
2007-08	1,107	-4.4%	162.2	7.1%
2008-09	1,057	-4.5%	174.0	7.3%
2009-10	972	-8.1%	193.1	11.0%
2010-11	969 d/	-0.4%	210.9	9.2%

a/ Source: *2009-10 Board of Equalization Annual Report*
b/ Source: Board of Equalization Excise Taxes Division. Represents wholesale sales of tobacco products as reported by distributors.
c/ Fiscal year 1997-98 was the last year unaffected by Proposition 10, which became law on January 1, 1999.
d/ Preliminary data. Source: Board of Equalization Excise Taxes Division.
n.a. not applicable

Source: BOE Research and Statistics Section, September 15, 2011.

AGENDA ITEM 5
January 18, 2012
Attachment E

First 5 California
Financial Plan FY 2011-12 through FY 2014-15

Account/Project	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Mass Media Communications (0631)				
Projected Carryover	$31,407,195	$18,173,205	$23,716,162	$23,951,144
Beginning Balance	**$31,407,195**	**$18,173,205**	**$23,716,162**	**$23,951,144**
School Readiness, Cycle 2	1,074,860			
Budget Solution - AB 99 ($50M Total)	**$19,000,000**			
Public Education and Outreach	$74,999			
Parent Signature Program - Education and Outreach	$14,557,756	$9,680,239	$9,680,239	$6,000,000
Parent Signature Program - 1-800 Number	$150,000	$150,000	$150,000	$150,000
Parent Signature Program - *Kit for New Parents*	$5,574,310	$5,574,310	$5,000,000	$5,000,000
Child Signature Program - Power of Preschool		$4,950,000	$9,900,000	$9,900,000
SCO/PRORATA/ADJUSTMENTS	$8,000	$8,000	$8,000	$8,000
Total Budgeted Expenditures	$40,439,925	$20,362,549	$24,738,239	$21,058,000
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	$40,439,925	$20,362,549	$24,738,239	$21,058,000
Subtotal	($9,032,731)	($2,189,344)	($1,022,077)	$2,893,144
Projected Revenue	**$27,048,900**	**$25,814,640**	**$24,854,640**	**$23,894,640**
Adjustment to Balance				
Projected Interest	$157,036	$90,866	$118,581	$119,756
Other Revenue				
Year End Balance	**$18,173,205**	**$23,716,162**	**$23,951,144**	**$26,907,539**
Education (0634)				
Projected Carryover	$25,052,048	$12,598,481	$20,145,673	$14,800,602
Beginning Balance	**$25,052,048**	**$12,598,481**	**$20,145,673**	**$14,800,602**
School Readiness, Cycle 2	$2,388,577			
Budget Solution - AB 99 ($50M Total)	**$13,000,000**			
Statewide Conference	$150,000	$150,000	$150,000	$150,000
Co-Sponsorship Funding	$150,000	$150,000	$150,000	$150,000
Regional Technical Assistance	$89,000			
Child Signature Program - Educare	$200,000	$2,900,000	$2,900,000	
Educare Advisors	$4,000			
Child RFA Development	$130,000	$20,000		
Child Signature Program-PoP Bridge	$19,000,000			
Child Signature Program - Power of Preschool		$10,800,000	$22,950,000	$22,950,000
SCO/PRORATA/ADJUSTMENTS	$8,000	$8,000	$8,000	$8,000
Total Budgeted Expenditures	$35,119,577	$14,028,000	$26,158,000	$23,258,000
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	$35,119,577	$14,028,000	$26,158,000	$23,258,000
Subtotal	($10,067,529)	($1,429,519)	($6,012,327)	($8,457,398)
Projected Revenue	**$22,540,750**	**$21,512,200**	**$20,712,200**	**$19,912,200**
Adjustment to Balance				
Projected Interest	$125,260	$62,992	$100,728	$74,003
Other Revenue				
Year End Balance	**$12,598,481**	**$20,145,673**	**$14,800,602**	**$11,528,805**
Orange: Account contribution for proposed AB 99 Budget Solution				
Purple: Amount pending Commission approval				
Royal Blue: Amount projected for ongoing expenditures				
Green: Subtotal amounts				

First 5 California
Financial Plan FY 2011-12 through FY 2014-15

Account/Project	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Child Care (0636)				
Projected Carryover	$23,130,745	$15,782,697	$645,923	$3,068,473
Beginning Balance	**$23,130,745**	**$15,782,697**	**$645,923**	**$3,068,473**
School Readiness, Cycle 2	$1,015,145			
Budget Solution - AB 99 ($50M Total)	**$4,000,000**			
Child Signature Program - Power of Preschool		$12,150,000		
Teacher Signature Program - CARES Plus	$15,965,007	$15,965,007	$10,000,000	$10,000,000
SCO/PRORATA/ADJUSTMENTS	$8,000	$8,000	$8,000	$8,000
Total Budgeted Expenditures	$20,988,152	$28,123,007	$10,008,000	$10,008,000
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	$20,988,152	$28,123,007	$10,008,000	$10,008,000
Subtotal	$2,142,593	($12,340,310)	($9,362,077)	($6,939,527)
Projected Revenue	**$13,524,450**	**$12,907,320**	**$12,427,320**	**$11,947,320**
Adjustment to Balance				
Projected Interest	$115,654	$78,913	$3,230	$15,342
Other Revenue				
Year End Balance	**$15,782,697**	**$645,923**	**$3,068,473**	**$5,023,135**
Research and Development (0637)				
Projected Carryover	$17,832,745	$9,371,824	$10,275,775	$13,900,140
Beginning Balance	**$17,832,745**	**$9,371,824**	**$10,275,775**	**$13,900,140**
School Readiness, Cycle 2	$1,492,861			
Budget Solution - AB 99 ($50M Total)	**$14,000,000**			
Annual Report	$149,004	$149,000	$149,000	$149,000
PEDS Maintenance	$100,000			
Project Training	$3,070			
Data Collection and Storage	$4,330,529			
Signature Program Data Collection and Storage	$271,667	$912,633	$497,333	$257,667
Signature Program Evaluation	$500,000	$500,000		
California Health Interview Survey 2011	$979,405	$520,595	$1,000,000	$500,000
IT Development	$90,000	$60,000		
Child Signature Program - RFA Development	$150,000			
Child Signature Program - Power of Preschool		$9,900,000	$7,200,000	$7,200,000
SCO/PRORATA/ADJUSTMENTS	$8,000	$8,000	$8,000	$8,000
Total Budgeted Expenditures	$22,074,535	$12,050,228	$8,854,333	$8,114,667
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	$22,074,535	$12,050,228	$8,854,333	$8,114,667
Subtotal	($4,241,790)	($2,678,404)	$1,421,442	$5,785,474
Projected Revenue	**$13,524,450**	**$12,907,320**	**$12,427,320**	**$11,947,320**
Adjustment to Balance				
Projected Interest	$89,164	$46,859	$51,379	$69,501
Other Revenue				
Year End Balance	**$9,371,824**	**$10,275,775**	**$13,900,140**	**$17,802,294**

First 5 California
Financial Plan FY 2011-12 through FY 2014-15

Account/Project	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Unallocated (0639)				
Projected Carryover	$5,426,453	$9,460,102	$6,039,802	$5,396,881
Beginning Balance	**$5,426,453**	**$9,460,102**	**$6,039,802**	**$5,396,881**
Small County Augmentations	$3,057,407	$3,000,000	$3,000,000	$3,000,000
California Smoker's Helpline	$1,079,895	$1,000,000	$1,000,000	$1,000,000
Child Signature Program - ELAC	$864,481	$864,481		
Child Signature Program - Power of Preschool		$7,200,000	$4,950,000	$4,950,000
SCO/PRORATA/ADJUSTMENTS	$8,000	$8,000	$8,000	$8,000
Total Budgeted Expenditures	$5,009,782	$12,072,481	$8,958,000	$8,958,000
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	$5,009,782	$12,072,481	$8,958,000	$8,958,000
Subtotal	$416,670	($2,612,378)	($2,918,198)	($3,561,119)
Projected Revenue	**$9,016,300**	**$8,604,880**	**$8,284,880**	**$7,964,880**
Adjustment to Balance				
Projected Interest	$27,132	$47,301	$30,199	$26,984
Transfer				
Other Revenue				
Year End Balance	**$9,460,102**	**$6,039,802**	**$5,396,881**	**$4,430,746**
0631, 0634, 0636, 0637, 0639 Totals:				
Total cigarette and tobacco tax revenue	**$85,654,850**	**$81,746,360**	**$78,706,360**	**$75,666,360**
Total resources per year	$189,018,281	$147,459,601	$139,833,812	$137,089,186
Total expenditures per year	$123,631,971	$86,636,266	$78,716,572	$71,396,667
Total Over/Under:	**$65,386,310**	**$60,823,335**	**$61,117,240**	**$65,692,519**
Total 15% Reserve	$12,848,228	$12,261,954	$11,805,954	$11,349,954
	$52,538,082	$48,561,381	$49,311,286	$54,342,565
Administration (0638)				
Projected Carryover	$24,360,806	$21,596,343	$19,309,818	$16,487,890
Beginning Balance	**$24,360,806**	**$21,596,343**	**$19,309,818**	**$16,487,890**
Administrative Expense	$6,276,220	$6,350,488	$6,676,916	$6,765,042
Furlough Buyback	$734,375			
SCO/PRORATA/ADJUSTMENTS	$383,822	$346,459	$384,000	$384,000
Total Budgeted Expenditures	$7,394,417	$6,696,947	$7,060,916	$7,149,042
Prior Year Adjustments				
Adjusted Fund Balance Expenditures	$7,394,417	$6,696,947	$7,060,916	$7,149,042
Subtotal	$16,966,389	$14,899,396	$12,248,901	$9,338,848
Projected Revenue	$4,508,150	$4,302,440	$4,142,440	$3,982,440
Projected Interest	$121,804	$107,982	$96,549	$82,439
Transfer				
Other Revenue				
Year End Balance	**$21,596,343**	**$19,309,818**	**$16,487,890**	**$13,403,727**
NOTE: Revenue Projections based on 2011 DOF May Revise.				

Signature Program Funding Summary

Fiscal Years 11/12 – 14/15

CHILD SIGNATURE PROGRAM
School Readiness

Authority: $204 Million through June 30, 2012

Account	FY 11/12	% of FY Total
Media	$1,074,860	18%
Education	$2,388,577	40%
Child Care	$1,015,145	17%
Research	$1,492,861	25%
	$5,971,443	100%

School Readiness, Cycle 2 programs began in FY 2006-07. FY 2011-12 is the final year of program operations under this authority.

CHILD SIGNATURE PROGRAM
Power of Preschool

Authority: $45 Million Per Year for Three Years through June 30, 2015

Account	FY 12/13	% of FY Total	FY13/14	% of FY Total	FY 14/15	% of FY Total
Media	$4,950,000	11%	$9,900,000	22%	$9,900,000	22%
Education	$10,800,000	24%	$22,950,000	51%	$22,950,000	51%
Child Care	$12,150,000	27%		0%		0%
Research	$9,900,000	22%	$7,200,000	16%	$7,200,000	16%
Unallocated	$7,200,000	16%	$4,950,000	11%	$4,950,000	11%
	$45,000,000	100%	**$45,000,000**	100%	**$45,000,000**	100%

TEACHER SIGNATURE PROGRAM
CARES Plus

Authority: Up to $36 Million through June 30, 2013

Account	FY 11/12	FY 12/13
Child Care	$15,965,007	$15,965,007
Research	$500,000	$500,000
	$16,465,007	**$16,465,007**

CARES Plus – Phase I Planning and Development activities began in FY 2010-11.

PARENT SIGNATURE PROGRAM

Authority:

1. **Parent Outreach and Education: $31.3 Million (10% Reduction) 1/1/2012 -12/31/2014**
2. **Parent Outreach and Education: Remaining authority through 12/31/2011**
3. **Kit for New Parents: Up to $15 Million through 7/31/2013**
4. **1-800 Number: Up to $150,000 Annually**

Account	FY 11/12	FY 12/13	FY 13/14	FY 14/15
1. Media	$6,000,000	$9,680,239	$9,680,239	$6,000,000
2. Media	$8,557,756			
3. Media	$5,574,310	$5,574,310	$5,000,000	$5,000,000
4. Media	$150,000	$150,000	$150,000	$150,000
	$20,282,066	**$15,404,549**	**$14,830,239**	**$11,150,000**