



AGENDA ITEM: 9
DATE OF MEETING: January 22, 2015
ACTION: _____
INFORMATION: X

UPDATE ON ALTERNATIVE SOURCES FOR ADDITIONAL REVENUE

SUMMARY

At the October 23, 2014, Commission meeting, staff outlined numerous alternative sources for additional revenue that may provide long-term sustainability for the Commission. After the presentation, the Commission directed staff to explore a number of the identified options, research and report on additional options, and provide an update on their findings at its next meeting.

UPDATE ON PREVIOUSLY-DISCUSSED OPTIONS

1. E-Cigarette Tax

As was reported at the October 2014 meeting, only two states, Minnesota and North Carolina, impose an excise tax on e-cigarettes. It was requested that staff obtain additional information regarding revenue generated by these states. Minnesota claims it cannot identify revenue solely from e-cigarettes, since its statutory definition of “tobacco product” has always been broadly interpreted to include e-cigarettes. However, Minnesota expects \$1.16 billion from all tobacco taxes in FY 2014-15. North Carolina reports that collection of the tax does not begin until July 2015, but estimates that it will bring in \$5 million annually.

In researching other states interested in taxing e-cigarettes, the Governor of Utah recently stated that taxation could bring in \$10 million annually to the state. Arizona is poised to introduce legislation that would tax electronic cigarettes at the same rate as tobacco cigarettes, estimating additional annual revenue for the state at \$6 million.

Staff was asked to discuss e-cigarette taxation with the Health Officers’ Association of California (HOAC). HOAC’s representative referred staff to the American Heart Association (AHA). The AHA representative indicated health advocates appear to be focusing their attention on legislation or an initiative to increase California’s excise tax by \$2 a pack (see section 3 below), and not on the taxation of e-cigarettes.

In an effort to gage the Legislature’s receptivity to an e-cigarette tax, First 5 California (F5CA) will work with the California Department of Public Health (CDPH) and the First 5 Association to explore this option. Staff will report its progress on this option at the April 23, 2015, Commission meeting.

Staff will ask a CDPH representative to make a presentation at the April meeting on e-cigarettes and their negative health consequences, as well as discuss efforts to include the effects of e-cigarettes in its anti-smoking campaign.

2. Inclusion of F5CA in any Initiative that Attempts to Legalize Recreational Marijuana Use

As reported during the October meeting, Colorado and Washington were the first states to legalize the commercial sale of marijuana to all adults over 21. In last year's November election, Oregon, Alaska, and Washington, D.C. joined that list, with Oregon and Alaska taxing marijuana similar to Colorado and Washington.

Momentum is growing for a California initiative in 2016. The Drug Policy Alliance (DPA), the leader of a number of the marijuana legalization campaigns, and the sponsor of one of the two circulated initiatives in California last year, is poised to place an initiative on the California ballot next year. In its previous iteration, the California initiative failed to earmark early childhood funding as a recipient of the identified excise tax.

Staff has made contact with DPA to assess its interest in including First 5 on the list of intended recipients for the 2016 initiative.

3. Cigarette Tax Increase for Early Childhood Education

Citing California's low excise tax on cigarettes (\$.87 per pack), a coalition of labor and health advocates, including the California Medical Association and the AHA, recently unveiled a campaign to impose a \$2.00 a pack tax through legislation or a ballot measure. Staff has discussed the campaign with an AHA representative, who has agreed to explore with its co-sponsors the inclusion of early childhood funding in any measure. Prior bills failed to identify early childhood education as a recipient of the increased excise tax, although they contained backfill language for F5CA.

4. Soliciting Donations

Soliciting donations was discussed at the October 2014 meeting. During the discussion, it was suggested that a "donate now" button could be added to the F5CA website for individuals who wish to donate. Staff found one public website that seeks donations: the California Senior Legislature. However, this organization specifically states on its website that it is not funded by taxes, but solely by contributions.

While Proposition 10 indicates F5CA can receive grants, gifts, or bequests of money made to or for the benefit of the State Commission, it also states that these deposits are to be expended for the specific purpose for which they are made. If F5CA were to add a donate button to its website, donors would have the option to select an account for which they wish to donate. To facilitate this, the donate button would lead potential donors to an online form capturing necessary data. This form would include a brief description of each account, along with a dropdown listing to allow the donor to select a specific account for the donation.

At the present time, F5CA has the ability to receive cash and checks; however, it would be advisable to accept donations via credit card as well. The addition of this payment mechanism would require establishing new accounts and developing internal procedures.

Once a deposit is recorded, accounting staff would remit the donation to the California Children and Families Trust Fund (Fund) per the statute's instruction, and then transfer the funds to the requested account based on the donor's website submission. The donations would be tracked separately in the accounting system and displayed in the Financial Plan.

REVIEW OF NEW OPTIONS

1. Sugar-Sweetened Beverage Excise Tax

Staff was asked to research the option of adding an excise tax to sugar-sweetened beverages. In November 2014, the city of Berkeley imposed the first-ever "sin tax" on soda in the United States. Measure D, which taxes sugar sweetened beverages a penny per ounce on distributors, passed by a 3-to-1 margin. The measure covers sodas, sports drinks, sweet teas, and beverage syrups. Since 2010, the California Legislature has unsuccessfully introduced six bills attempting to impose a beverage tax.

Staff will continue conversations with advocates and the Legislature to determine the interest in a future sugar-sweetened beverage excise tax, and whether First 5 could be included as one of the recipients of the tax if a bill were drafted.

2. Investment of F5CA Funds

Staff was asked to explore the possibility of investing F5CA funds, similar to the Public Employees Retirement System. Currently, the Fund and related F5CA accounts participate in the State's Pooled Money Investment Program, whereby cash on deposit in the State Treasury determined to be in excess of immediate needs is transferred to the Surplus Money Investment Fund (SMIF) for investment purposes. All earnings derived from investment of the SMIF are apportioned to the contributing fund on a quarterly basis as required by law. In FY 2013-14, F5CA's state accounts received SMIF earnings in the amount of \$401,778.

Currently, F5CA does not have authority to invest its funds outside of the State Treasury. Article 16, section 17, of the California Constitution states that, with the exception of the retirement board of a public pension or retirement system, the State shall not in any manner loan its credit, nor shall it subscribe to, or be interested in the stock of any company, association, or corporation unless the stock is acquired or held for the purpose of furnishing a supply of water for public, municipal, or governmental purposes. Additional discussions would need to occur with the Department of Finance to justify the structural change and implications.