



AGENDA ITEM: 5
DATE OF MEETING: July 23, 2015
ACTION: X
INFORMATION: _____

**ALTERNATIVE SOURCES FOR ADDITIONAL REVENUE UPDATE
CORRECTED JULY 23, 2015**

SUMMARY

At the January 22, 2015, 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 concentrate on specific identified options and provide an update on their findings at subsequent Commission meetings. The following update reviews each of these four options: electronic cigarette (e-cigarette) taxation, marijuana legalization and taxation, tobacco tax increases, and private donations.

UPDATE ON PREVIOUSLY DISCUSSED OPTIONS

1. E-Cigarette Taxation

The Legislature is taking an active role in the regulation of e-cigarettes. To date, multiple pieces of legislation have been proposed that seek to: 1) change the definition of tobacco products to include e-cigarettes (SB 140, Leno); 2) extend the requirements of the STAKE Act to the sale of e-cigarettes (SB 24, Hill); and 3) prohibit non-nicotine vapor products sales to minors (AB 216, Green). As of this item's publication, only AB 216 (Green) is moving through the committee hearing process in the second house of the Legislature. SB 140 (Leno) will not be moved forward by the author, and SB 24 (Hill) failed to pass out of its house of origin by the June 8 deadline which means the legislation will not move forward this year. While these bills do not address excise taxes for e-cigarettes, staff have met with legislators and the bills' sponsors to advance the subject of the need for taxation, and the inclusion of First 5, in future legislation.

In addition, the "Save Lives California" Coalition promoting an increased Tobacco Tax to increase Medi-Cal provider rates filed an alternative Tobacco Tax initiative on May 4, 2015, with the Secretary of State that includes e-cigarettes in the definition of tobacco products, for purposes of the new tax. This initiative does not extend the definition of e-cigarettes for taxation to Propositions 10 or 99. Please see the Tobacco Tax Increase section of this item for more details on First 5 staff engagement with the Coalition's leadership.

2. Inclusion of First 5 California in Initiative to Legalize Recreational Marijuana Use

In January 2015, staff met with a representative of the Drug Policy Alliance (DPA), the leader of a number of the marijuana legalization campaigns. The DPA representative was interested in the prospect of including First 5 or First 5-supported issues on the list of intended revenue recipients for the 2016 initiative, and encouraged First 5 California (F5CA) staff to send language describing First 5 and issues the Commission supports.

Since the April Commission meeting and follow-up discussions with the DPA representative, four marijuana legalization initiatives have been filed with the Secretary of State. The DPA is not a named proponent of any of the four initiatives that have been filed with the Secretary of State.

The Secretary of State's initiative title and summary are below for the Americans for Policy Reform effort:

MARIJUANA LEGALIZATION. INITIATIVE STATUTE. Legalizes under state law marijuana use, growth, cultivation, possession, transportation, storage, or sale. Creates commission to regulate and license marijuana industry. Applies general retail sales taxes to marijuana, unless medical or dietary exemptions apply. Permits taxes on nonmedical marijuana sales, up to 10% of retail price. Prohibits discrimination against marijuana users or businesses. Prohibits Legislature from enacting marijuana laws. Imposes personal liability on law enforcement for wrongful marijuana destruction or assisting with certain marijuana investigations. Requires voter approval to zone beyond set limits. Nullifies other local regulations. Exempts medical marijuana collectives from licensing and local zoning.

This initiative draft includes a 10 percent revenue set-aside for "universal preschool."

3. Tobacco Tax Increase for Early Childhood Education

Citing California's low excise tax on cigarettes (\$.87 per pack), Senator Pan (SB 591) and Assemblymember Bonta (AB 1396) introduced companion bills in February 2015 that would increase California's tobacco tax by \$2.00 a pack. Currently, the legislation earmarks all additional revenue for tobacco prevention and education (14 percent of the total additional revenue; 80 percent of that amount to be allocated to the Department of Public Health, 10 percent to the Department of Education, and 10 percent to the University of California), tobacco disease-related health care and Medi-Cal expansion (84 percent of the total additional revenue allocated to the Department of Health Care Services), and tobacco law enforcement (2 percent of the total additional revenue allocated to the Board Of Equalization, the Department of Justice, and the Department of Public Health). Backfill is provided by the legislation for lost First 5 revenue as a result of the new tax.

The AB 1396 and SB 591 sponsor, the Coalition for a Healthy California (which is chaired by SEIU, the California Medical Association, and the California Hospitals Association), has also filed two initiatives with the Secretary of State for possible consideration on the November 2016 ballot. One measure mirrors the legislation described above; however, the second measure adds electronic cigarettes as an additional tobacco product for purposes of taxation. If the legislative vehicles are not successful in the current year, the Coalition intends to pursue one of the initiatives.

On June 16, 2015, Governor Brown called for the Legislature to convene a special session commencing on June 19 to consider and act upon legislation necessary to establish a revenue source to both stabilize the state General Fund's Medi-Cal and other health care costs and also improve the efficiency and efficacy of California's health care system. AB 1396 and SB 591 are expected to be discussed during the special session as a possible funding source to address low Medi-Cal provider rates.

F5CA staff, Chair Halvorson, and the First 5 Association are engaging with the bills' authors and sponsors to explore options that would ensure First 5 programs benefit beyond the current backfill provision, including increased benefit from any new electronic cigarette taxation definition.

4. Soliciting Donations

F5CA staff developed a donation page that, once in production, will be accessed from the F5CA website and used as a vehicle to accept and document donations. The donation page captures information pertinent to the proper recording and tracking of donation revenue, such as donor name, company (if applicable), contact information, donation amount, and payment preference (cash, check, or credit card). Additionally, a listing of donation options consisting of statewide programs, activities, and funds administered by F5CA is available for donors to easily select a purpose for their donation. An "Other" option with a text box also is included to allow donors to specify a purpose not included in the listing.

Upon submission of the information, the donor is directed to a confirmation page that includes instructions to mail or deliver donations in the form of cash or check to F5CA with a copy of the confirmation page as supporting documentation.

F5CA staff members are in the process of establishing the infrastructure necessary to accept credit card payments. Contracts with credit card acceptance contractors and credit card companies are in the development phase, but staff anticipate this process to be intact in the near future.

Staff is committed to continuing in their efforts to identify sustainable revenue over and above the revenue F5CA currently receives. At the Commission's direction, staff will continue to pursue the options listed above, and provide a progress report to the Commission on a regular basis.

STAFF RECOMMENDATION

Staff recommends the Commission expand the jurisdiction of the Strategic Planning Committee to advise on and participate in staff action and negotiations for revenue generation opportunities.

Staff also recommends the Commission operationalize a donation function on the First 5 California website.