



January 26, 2017

SUBJECT FINANCIAL UPDATE	<input type="checkbox"/> Action <input checked="" type="checkbox"/> Information
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SUMMARY OF THE ISSUE

This item provides an update of the Commission's financial plan and other topics of financial interest.

RECOMMENDATION

This is an information-only item. First 5 California (F5CA) staff is not requesting action at this time.

BACKGROUND OF KEY ISSUES

Staff provides a financial update of First 5 Commission funds at each quarterly meeting of the State Commission.

Revenue Update

On January 10, 2017, the 2017–18 Governor's Budget was released. The Budget Summary included the following information regarding cigarette tax revenue:

“Projections of cigarette tax revenues are based on projected per capita consumption of cigarettes, population growth, and the impact from the higher smoking age as well as the increased prices due to Proposition 56. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, anti-smoking campaigns (including state campaigns funded by Proposition 99 Tobacco Tax and Health Protection Act revenues and revenues from the Master Tobacco Settlement), and the 2009 federal cigarette tax rate increase have reduced cigarette consumption

considerably. This decline is expected to accelerate with the passage of Proposition 56.”

The Governor’s Budget included revised revenue projections in FY 2016–17 and ongoing. F5CA’s Fiscal Office has been monitoring the actual FY 2016–17 revenue collections to date. Based on the July through November 2016 revenue transfers, there is no indication of declining revenues and shows a 1.03 percent variance from the original FY 2016–17 projected revenues. While F5CA does not plan to revise the FY 2016–17 projections, FY 2017–18 through FY 2020–21 revenues were revised based on the analysis conducted by the Department of Finance (DOF). The DOF analysis included the decline in revenues as well as the projected Proposition 56 backfill. Per Proposition 56, the backfill amounts are calculated in arrears, which take into account the prior year actual revenue loss attributable to Proposition 56. For this reason, the FY 2017–18 backfill amount is low as it is based on the small revenue loss projected in FY 2016–17. Additionally, the FY 2017–18 revenue projections decline substantially due to the first full year impact of Proposition 56. After the one-time decline in revenue, the continued average decline is an average of 2.9 percent ongoing. As the backfill amount increases in FY 2018–19, the ongoing available funds for transfer will stabilize.

The following table represents the actual tax revenues transferred from the California Children and Families Trust Fund (Fund) to F5CA state accounts beginning with FY 2010–11 through FY 2015–16, and projected revenue for FY 2016–17 through FY 2020–21, with the percentage of change from each fiscal year to the next.

**Table 1
Actual and Projected First 5 California Revenue Through FY 2020–21**

	Fiscal Year	Tax Revenue Amount	% Decline
Actuals	2010/11	\$94,050,327	1.86%
	2011/12	\$93,381,688	0.71%
	2012/13	\$90,100,191	3.51%
	2013/14	\$86,103,907	4.44%
	2014/15	\$86,027,892	0.09%
	2015/16	\$85,473,337	0.64%
Projections	2016/17	\$84,071,600	1.64%
	2017/18*	\$69,316,800	17.55%
	2018/19*	\$80,547,600	-16.20%
	2019/20	\$78,171,600	2.95%
	2020/21	\$75,790,000	3.05%

* The large decline in FY 2017–18 is the result of the first full year impact of Proposition 56, as well as the one-year lag in backfill calculations. In FY 2018–19, the revenues stabilize, and the backfill for revenue loss in FY 2017–18 is transferred to F5CA funds, causing the marked increase to revenues.

FINANCIAL PLAN

F5CA tracks actual and projected revenues and expenditures by fiscal year for the following six Proposition 10 accounts for use by the State Commission: Mass Media Communications, Education, Child Care, Research and Development, Administration, and Unallocated. This information is captured in Attachment A, which includes actual and projected revenue and expenditures by account for the prior year, current fiscal year, and five budget years.

FISCAL MAPPING TO THE STRATEGIC PLAN

F5CA's Strategic Plan, adopted by the Commission in January 2014, is the driving force behind program and operational expenditures incurred by F5CA. Generally, activities of the Commission, unless statutorily mandated, fall under at least one of the Strategic Priority Areas identified in the Strategic Plan. Attachment B maps expenditures identified in the Financial Plan to specific goals identified in the Strategic Plan. This attachment has been streamlined to reflect a higher level of detail, per the request of the Fiscal Advisory Committee.

ATTACHMENTS

- A. First 5 California Financial Plan FY 2015–16 through FY 2020–21
- B. First 5 California Fiscal Mapping to the Strategic Plan