



July 22, 2021

INFORMATION ACTION

SUBJECT: FINANCIAL UPDATE

SUMMARY OF THE ISSUE

First 5 California (F5CA) staff will provide an update on the Commission's financial plan and other topics of financial interest.

Revenue Update

Table 1 on page 2 represents the actual and projected cigarette and tobacco tax revenues transferred from the California Department of Tax and Fee Administration (CDTFA) to the California Children and Families Trust Fund. The table includes updated revenue projections based on the May Revision to the Governor's Budget dated May 14, 2021. The table further displays the statutory distribution of 20% to the First 5 California State Commission and 80% to the county commissions. Revenue transfers are presented as actuals for fiscal year (FY) 2011/12 through FY 2019/20 and projected revenues FY 2020/21 through FY 2024/25, with the percentage decline from each fiscal year to the next.

Proposition 10

As of May 2021, the CDTFA has transferred \$287M to the California Children and Families Trust Fund. Of this amount, \$57M was allocated the State Commission to administer the Media, Education, Child Care, Research and Development, Unallocated, and Administrative accounts. CDTFA collects Proposition 10 tax revenue and adjusts for statewide assessments, administrative costs incurred by CDTFA, and backfill to Proposition 99 prior to transferring revenue to the Fund.

The following summary table compares the projected revenue amount for the State Commission displayed on Table 1 with revenues received as of May 2021. Revenue is inclusive of Proposition 10 tax revenue, Proposition 56 Backfill, and Surplus Money Investment Fund (SMIF) interest. Proposition 10 revenue for June is anticipated to be transferred by CDTFA to the California Children and Families Trust Fund either late July or early August.

Summary Table

FY 2020/21	
Description	Amount
F5 Commission Projected Revenue	\$77,335,967
Actuals Received as of May 2021	\$76,292,199

Table 1
Actual and Projected Cigarette and Tobacco Tax Revenue through FY 2024/25

	Fiscal Year	F5 Commission Tax Revenue Amount	F5 Counties Tax Revenue Amount	Total Revenue Amount	% Change
Actuals	2011/12	\$93,381,688	\$373,526,751	\$466,908,439	-0.71%
	2012/13	\$90,100,191	\$360,400,766	\$450,500,957	-3.51%
	2013/14	\$86,103,907	\$344,415,629	\$430,519,536	-4.44%
	2014/15	\$86,027,892	\$344,111,568	\$430,139,460	-0.09%
	2015/16	\$85,473,337	\$341,893,349	\$427,366,686	-0.64%
	2016/17	\$79,614,357	\$318,457,428	\$398,071,785	-6.85%
	2017/18	\$70,215,057	\$280,860,227	\$351,075,284	-11.81%
	2018/19	\$67,368,197	\$269,472,787	\$336,840,984	-4.05%
	2019/20	\$80,672,204	\$322,688,815	\$403,361,019	19.75%
Projections	2020/21	\$77,335,967	\$309,343,869	\$386,679,836	-4.14%
	2021/22	\$79,430,339	\$317,721,358	\$397,151,697	2.71%
	2022/23	\$77,605,339	\$310,421,358	\$388,026,697	-2.30%
	2023/24	\$75,620,139	\$302,480,558	\$378,100,697	-2.56%
	2024/25	\$73,738,539	\$294,954,158	\$368,692,697	-2.49%

Note: FY 2019/20 reflects an increase in revenue due to Proposition 56 Backfill being significantly higher than the previous fiscal year. F5CA does not expect a revenue increase such as this to reoccur in the future.

Senate Bill (SB) 793 (Hill)

On August 28, 2020, Governor Newsom signed SB 793 which prohibits the sale of most flavored tobacco products and tobacco product flavor enhancers. On January 22, 2021, a veto referendum qualified for the next statewide ballot. This referendum has suspended the implementation of SB 793 pending the outcome of the November 2022 general election.

May Revision

On May 14, 2021 the Department of Finance (DOF) released the May Revision to the Governor's Budget. This year, F5CA received two distinct sets of cigarette and tobacco tax revenue estimates. The first projection was the standard revenue estimates for Proposition 10. In comparing the current forecast to the previous forecast provided in May 2020, the revenue estimates reflect an increase of approximately 6%. The second

revenue estimate provided by DOF assumes the flavor ban impact of SB 793. This forecast shows a decline in Proposition 10 revenue beginning in FY 2022/23 with a half-year impact, and then a full year impact beginning with FY 2023/24 and thereafter. The average decline was approximately 15%. F5CA is currently engaging DOF to further understand the variance in revenue estimates of the flavor ban impact versus without.

An impact to Proposition 56 Backfill, assuming the flavor ban impact is in effect, would not be visible until fiscal year 2023/24 as it is backfilling the previous fiscal year revenues (2022/23).

Table 2 below displays the revenue projection for FY 2021/22, capturing the various components that factor into the amount available to transfer. Of the available to transfer amount, 20% will allocate to the State Commission.

Table 2
FY 2021/22 Revenue Projection Calculation

Revenue Projections		
Proposition 10	\$	330,069,000
Proposition 56	\$	93,464,000
SMIF Interest	\$	225,055
Less Assessment/Costs	\$	(14,850,358)
Less Prop 99 Backfill	\$	(11,756,000)
Available to Transfer	\$	397,151,697

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, Unallocated, and Administration. This information is captured in F5CA's Financial Plan (Attachment A), which includes actual and projected revenue and expenditures by account for the current year and four subsequent fiscal years. Attachment B, entitled Fund Condition Summary, provides additional detail of the Financial Plan for each of F5CA's accounts.

Collaboration

In collaboration with the First 5 Association, F5CA continues to engage CDTFA in quarterly discussions surrounding the reconciliations of the California Children and Families Trust Fund. These conversations have led to transparency and understanding of the monthly activities within the fund and have aided both the State Commission and county commissions in better planning.

Year End Update

F5CA staff has been working alongside the Department of General Services in preparation to close fiscal year 2020/21. F5CA hopes to have the year closed no later than August 31, 2021 and will present reconciled year end data at the October Commission meeting.

Audit Update

DOF, Office of State Audits and Evaluation completed audit testing in August 2019 for FY 2015/16 and 2016/17. F5CA has not received preliminary findings to date.

ATTACHMENTS

- A. First 5 California Financial Plan FY 2020/21 through 2024/25
- B. First 5 California Fund Condition Summary 2020/21 through 2024/25
- C. Financial Plan PowerPoint