



April 20, 2023

 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 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 received from the Department of Finance (DOF) for the Governor's Proposed Budget released January 10, 2023. The table further displays the statutory distribution of 20% to the F5CA State Commission and 80% to the county commissions. Revenue transfers are presented as actuals for fiscal year (FY) 2011/12 through FY 2020/21 and projected revenues for FY 2021/22 through FY 2026/27, with the percentage decline from each fiscal year to the next.

Table 1

	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%
	2020/21	\$75,087,606	\$300,350,423	\$375,438,029	-6.92%
Pr	2021/22	\$77,614,028	\$310,456,110	\$388,070,138	3.36%

2022/23	\$68,505,664	\$274,022,654	\$342,528,318	-11.74%
2023/24	\$61,976,464	\$247,905,854	\$309,882,318	-9.53%
2024/25	\$59,300,864	\$237,203,454	\$296,504,318	-4.32%
2025/26	\$57,667,864	\$230,671,454	\$288,339,318	-6.95%
2026/27	\$56,040,064	\$224,160,254	\$280,200,318	-5.50%

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.

Proposition 10

For FY 2022/23, the total Proposition 10 tobacco tax revenue collected by CDTFA for the months of July 2022 through February 2023 (prior to CDTFA adjustments for statewide assessments, administrative costs, and backfill to Proposition 99 and the Breast Cancer Fund) was \$177M. Of this amount, \$158.7M (after adjustments) was transferred to the California Children and Families Trust Fund. The State Commission’s share totaled \$31.7M to administer the Mass Media Communications, Education, Child Care, Research and Development, Unallocated, and Administration accounts.

Chart 1 below reflects the year-to-date revenues received for State Commission operations (excludes county share) for the months of July 2022 through February 2023. Whereas Chart 2 shows a three-year revenue comparison by month, reflecting the fluctuations in monthly revenues received between FY 2020/21 through FY 2022/23.

Chart 1

FY 2022/23 Prop 10 Revenue – State Commission Share

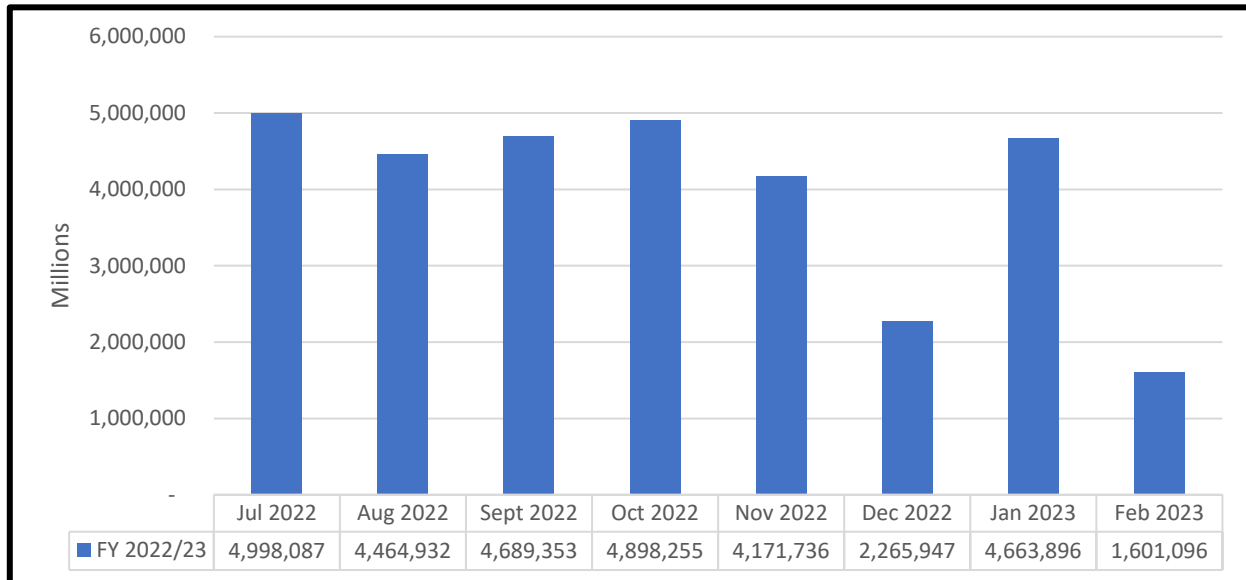
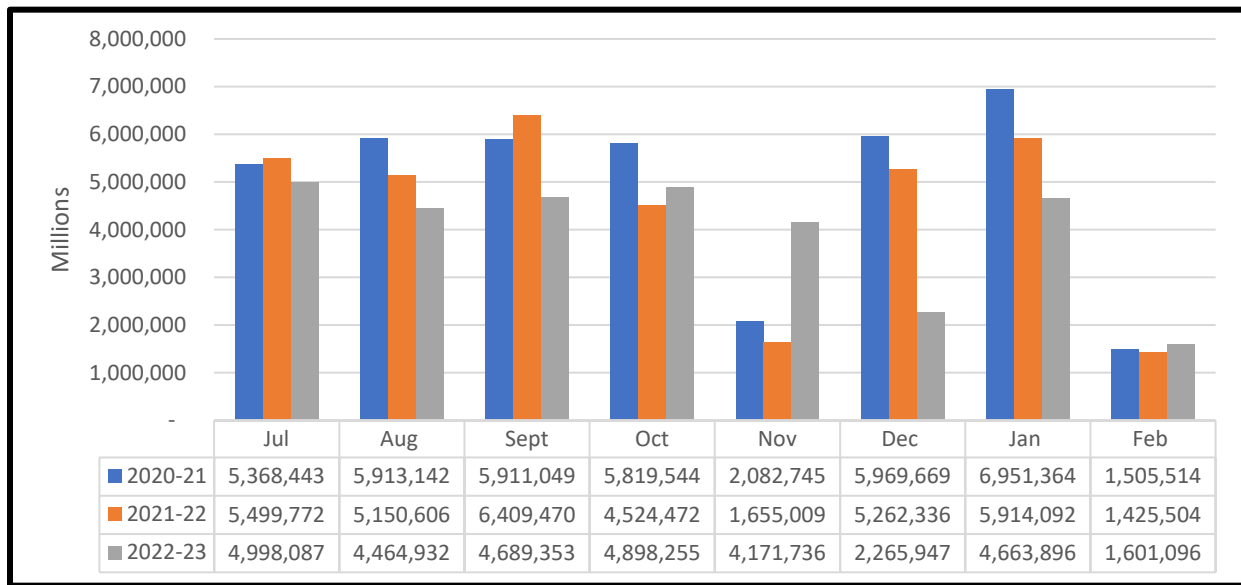


Chart 2

Three-Year Revenue Comparison by Month – State Commission



F5CA receives revenue throughout the fiscal year, with a two-to-three-month delay. Therefore, F5CA does not realize the full fiscal year revenue until September or October of the following fiscal year.

To encumber funds (set aside funds for current commitments and obligations of the State Commission), there must be a sufficient carryover cash balance to cover these costs or projected current revenue that would ensure sufficient cash in the given fiscal year to cover the fiscal year obligations. The Commission enters into multi-year agreements with vendors and county commissions, typically in periods of three-to-four years. However, encumbrances for agreements only include unpaid and remaining commitments for the current fiscal year. It is not the entire agreement amount. Therefore, funds must be available for current fiscal year obligations on July 1 of each fiscal year.

With a primary revenue source that is expected to continuously decline, and the recent implementation of the flavor ban, continuance of sound budget controls is imperative to ensure the Commission can continue to meet its multi-year obligations. If cash balances are significantly depleted, the current encumbrance practice could be impacted, as well as the ability to pay obligations in a timely manner.

Proposition 56 Backfill

Proposition 56 was approved by voters in November 2016, increasing the state’s excise tax on cigarettes and other tobacco products. The backfill was intended to maintain the loss of revenues to existing tax funds as a result of the decline of purchases and consumption.

For FY 2022/23, the Proposition 56 backfill amount transferred to the California Children and Families Trust Fund is \$84.712 million, with the State Commission receiving \$16.9

million to administer the state’s funds. The revenue transfer is to backfill funds affected by the changes in consumption during the previous fiscal year. Table 2 below shows the allocation of funds to each of the State administered accounts.

Table 2

Prop 56 Allocation – State Commission Share	
Mass Media Communications	5,082,720
Education	4,235,600
Child Care	2,541,360
Research & Development	2,541,360
Administration	847,120
Unallocated	1,694,240
Total	\$ 16,942,400

California Electronic Cigarette Excise Tax (CECET)

SB 395 enacted the Healthy Outcomes and Prevention Education (HOPE) Act, which imposes the CECET. Beginning July 1, 2022, retailers of electronic cigarettes, containing or sold with nicotine, are required to collect the CECET at a rate of 12.5% from the purchaser at the time of sale. CDTFA oversees the collection and distribution of the CECET tax. All revenues, interest, and penalties, less refunds, collected from the tax will be distributed accordingly with a portion going to the California Children and Families Trust Fund.

Retailers are required to file separately from any other reports and returns on a quarterly basis beginning July 1, 2022. The total e-cigarette revenue for the first two quarters, after CDTFA adjustments, was approximately \$15.4M. Of this amount, 12% was transferred to the California Children and Families Trust Fund. The total transferred was \$1,844,222.84, with 20% allocated to the State Commission to administer the state funds. Table 3 below shows the allocation for the State administered funds.

Table 3

CECET Tax - State Commission Share	
Mass Media Communications	110,653.37
Education	92,211.14
Child Care	55,326.69
Research & Development	55,326.69
Administration	18,442.23
Unallocated	36,884.46
Total	\$ 368,844.57

Administration Account

The Administration account receives 5% of the 20% allocated to the State Commission to administer the state funds. As per Health and Safety Code 130105 (1) (E), funds not expended for administrative functions may be transferred to the Unallocated account upon approval of the Commission; however, funds from the Unallocated account may not be transferred to the Administration account.

Chart 3 below summarizes projected administration costs for FY 2022/23 based on a combination of actual and projected costs for the current fiscal year. As of February 2023, the State Commission has expended \$2.9M for administration.

Chart 3

Projected Administrative Costs	Amount
Personnel	3,146,436
Operating Expenses	927,065
Statewide Assessments	996,796
Total Projected Administrative Costs	\$ 5,070,297

As a result of decreasing revenues and increasing operational costs, the administration account is currently deficit spending. With insufficient revenues to cover current operational costs, the account steadily relies on carryover balance to meet its obligations. As a result, the account will be in a deficit in FY 2025/26. Staff are exploring ways to mitigate the financial distress on the account.

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. Currently, the financial plan is reflecting six years as we work to completely close FY 2021/22. Attachment B, entitled Fund Condition Summary, provides additional detail of the Financial Plan for each of F5CA's accounts.

Audit Update

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

ATTACHMENTS

- A. First 5 California Financial Plan FY 2021/22 through 2026/27
- B. First 5 California Fund Condition Summary 2021/22 through 2026/27