



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

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January 5, 2010

Ms. Kris Perry  
Executive Director  
First 5 California  
2389 Gateway Oaks Drive, Suite 260  
Sacramento, CA 95833

Dear Ms. Perry:

Thank you for your invitation to speak to the First 5 California Children and Families Commission (Commission) at its January 26, 2010 meeting regarding the Board of Equalization's current and historical costs related to the administration of the California Children and Families Trust Fund (Fund). As your office was informed, I have a conflict due to the Board of Equalization (BOE) January Board meeting to be held on the same day.

In an effort to address the Commission's questions I directed my staff to meet with your staff on December 21, 2009 to discuss the Commission's request. BOE staff was able to provide an extensive overview of BOE programs and activities that affect the revenues and costs, which are predominantly for program implementation and enforcement versus administration. Staff also discussed the various BOE program and administrative activities that result in revenues, their costs, how the costs are derived, and some of the drivers that affect both the programs and administrative costs. As a follow up to that meeting, attached is a spreadsheet of the Fiscal Year 2008-09 Cigarette Tax and Cigarette Licensing Fee Programs cost breakdowns and a spreadsheet titled *California Children and Families First Trust Fund Revenues and Expenditures* which were reviewed in detail. In addition, we will be providing a list to Ms. Terry Miller of the drivers that your staff thought would be helpful in better understanding the costs. If after reviewing these materials the Commission still desires a presentation from the BOE, I would be happy to speak at your April 21, 2010 Commission meeting. Please confirm your request with my office at (916) 445-4272.

Staff should feel free to contact Mr. Steven Mercer, Budget Office, at 322-3059 for any questions regarding the budget information. They may also contact Mr. Gil Haas, Investigations Division Chief, at 324-2684, or Mr. Richard Parrott, Excise Taxes Division Administrator, at 552-8637, for questions regarding enforcement or program implementation respectively. Thank you for allowing us to assist your Commission in better understanding the Cigarette Programs and their associated revenues and costs.

Sincerely,

Liz Houser, Deputy Director  
Administration Department  
Board of Equalization

LH:cc:lk

## 2008-09 PROGRAM COST BREAK DOWNS

| <u>PROGRAM</u>   | <u>All Funds</u> | <u>Pys</u> | <u>First 5 share of Funding</u> |
|--|------------------|------------|---------------------------------|
| <b>CIGARETTE TAX PROGRAM</b>   |                  |            |                                 |
| Enforcement, Audit, Collections, Registration,<br>Return Processing      | 8,586,358        | 76.6       | 3,395,332                       |
| Cigarette Tax Stamp  | 5,627,635        |            | 2,225,354                       |
| Administration   | 3,168,841        | 17.2       | 1,253,065                       |
| Total  | 17,382,834       | 93.8       | 6,873,751<br>39.5%              |
| <b>CIGARETTE LICENSING FEE PROGRAM</b>                                   |                  |            |                                 |
| Enforcement, Audit, Collections, Registration,<br>Return Processing      | 7,954,418        | 73.5       | 4,031,783                       |
| Administration   | 1,609,612        | 11.3       | 815,848                         |
| Total  | 9,564,030        | 84.8       | 4,847,631<br>50.7%              |
| <b>CIGARETTE TAX PROGRAM &amp; CIGARETTE LICENSING FEE PROGRAM TOTAL</b> |                  |            |                                 |
| Enforcement, Audit, Collections, Registration,<br>Return Processing      | 16,540,775       | 150.1      | 7,427,115                       |
| Cigarette Tax Stamp  | 5,627,635        |            | 2,225,354                       |
| Administration   | 4,778,453        | 28.5       | 2,068,913                       |
| Total  | 26,946,864       | 178.6      | 11,721,382<br>43.5%             |

### California Children and Families First Trust Fund Revenues and Expenditures

|   | Actual<br>2002-2003 | Actual<br>2003-2004 | Actual<br>2004-2005 | Actual<br>2005-2006 | Actual<br>2006-2007 | Actual<br>2007-08 | Actual<br>2008-09 | Budgeted/<br>Projected<br>2009-10 | Budgeted/<br>Projected<br>2010-11 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|-----------------------------------|-----------------------------------|
| California Children and Families First - (0623) | \$ 595,439,286      | \$ 601,708,167      | \$ 609,503,204      | \$ 611,030,692      | \$ 603,384,549      | \$ 576,857,464    | \$ 555,404,306    | \$ 538,700,000                    | \$ 522,500,000                    |

| Name   | 2002-03      | 2003-04      | 2004-05      | 2005-06      | 2006-07      | 2007-08       | 2008-09       | 2009-10       | 2010-11       |
|--|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| CA Children and Families First Trust Fund (0623) | \$ 1,929,000 | \$ 2,346,901 | \$ 3,526,879 | \$ 4,958,000 | \$ 7,237,393 | \$ 10,508,495 | \$ 11,721,382 | \$ 13,971,000 | \$ 16,134,000 |

Percentage of Revenue to Administration Fees      0.3%      0.4%      0.6%      0.8%      1.2%      1.8%      2.1%      2.6%      3.1%

#### 45 CIGARETTE AND TOBACCO TAX PROGRAM

|   | Tax Rate   | Revenue %     | 2009-10<br>Budgeted | Fund %        |
|---|------------|---------------|---------------------|---------------|
| 0001 General Fund                                       | 10¢        | 11.5%         | 6,312,000           | 31.2%         |
| 0004 Breast Cancer Fund                                 | 2¢         | 2.3%          | 419,000             | 2.1%          |
| 0230 Cigarette and Tobacco Products Surtax Fund         | 25¢        | 28.7%         | 5,247,000           | 26.0%         |
| 0623 California Childhood and Families First Trust Fund | 50¢        | 57.5%         | 8,233,000           | 40.7%         |
| <b>Totals, Cigarette and Tobacco Tax Program</b>        | <b>87¢</b> | <b>100.0%</b> | <b>20,211,000</b>   | <b>100.0%</b> |

#### 46 CIGARETTE AND TOBACCO LICENSING PROGRAM

|   | 2009-10<br>Budgeted | Fund %        |
|---|---------------------|---------------|
| 0001 General Fund   | 1,157,000           | 11.6%         |
| 0004 Breast Cancer Fund                                       | 230,000             | 2.3%          |
| 0230 Cigarette and Tobacco Products Surtax Fund               | 2,882,000           | 28.8%         |
| 0623 California Childhood and Families First Trust Fund       | 5,738,000           | 57.3%         |
| 3067 Cigarette and Tobacco Products Compliance Fund           | 648,000             |               |
| <b>Totals, Cigarette and Tobacco Products Compliance Fund</b> | <b>10,655,000</b>   | <b>100.0%</b> |