



October 22, 2020

## **INFORMATION ITEM**

**SUBJECT: Financial Update**

### **SUMMARY OF THE ISSUE**

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

### **BACKGROUND OF KEY ISSUES**

Staff provides a financial update of First 5 California (F5CA) Commission funds at each quarterly meeting of the State Commission.

#### **Revenue Update**

Table 1 on the following page 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 further displays the statutory distribution of 80% to the First 5 California State Commission and 20% to the county commissions. Revenue transfers are presented as actuals for fiscal year (FY) 2011/12 through FY 2018/19 and projected revenues FY 2019/20 through FY 2023/24, with the percentage decline from each fiscal year to the next.

At the August Commission Meeting, F5CA staff presented the revised revenue projections from the Department of Finance (released May 14, 2020). These revised projections showed an average annual decline in tax revenue of 2.94% for FY 2020/21 through FY 2023/24. Revenue amounts displayed in Table 1 incorporate Proposition 10, Proposition 56 Backfill, and State Money Investment Fund (SMIF) earnings.

CDTFA makes adjustments to the Proposition 10 tax revenue prior to transferring revenue to F5CA funds. Adjustments deducted from Proposition 10 revenue include statewide assessments, administrative costs incurred by CDTFA, and Proposition 99 Backfill amounts. Table 2 on the following page shows the revenue projection calculation for FY 2020/21 in the amount of \$373M.

**Table 1**  
**Actual and Projected Cigarette and Tobacco Tax Revenue through FY 2023/24**

	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	\$66,675,215	\$266,700,858	\$333,376,073	-5.04%
Projections	2019/20	\$77,640,393	\$310,561,572	\$388,201,965	16.45%
	2020/21	\$74,585,367	\$298,341,469	\$372,926,836	-3.93%
	2021/22	\$72,353,567	\$289,414,269	\$361,767,836	-2.99%
	2022/23	\$70,412,767	\$281,651,069	\$352,063,836	-2.68%
	2023/24	\$68,601,967	\$274,407,869	\$343,009,836	-2.57%

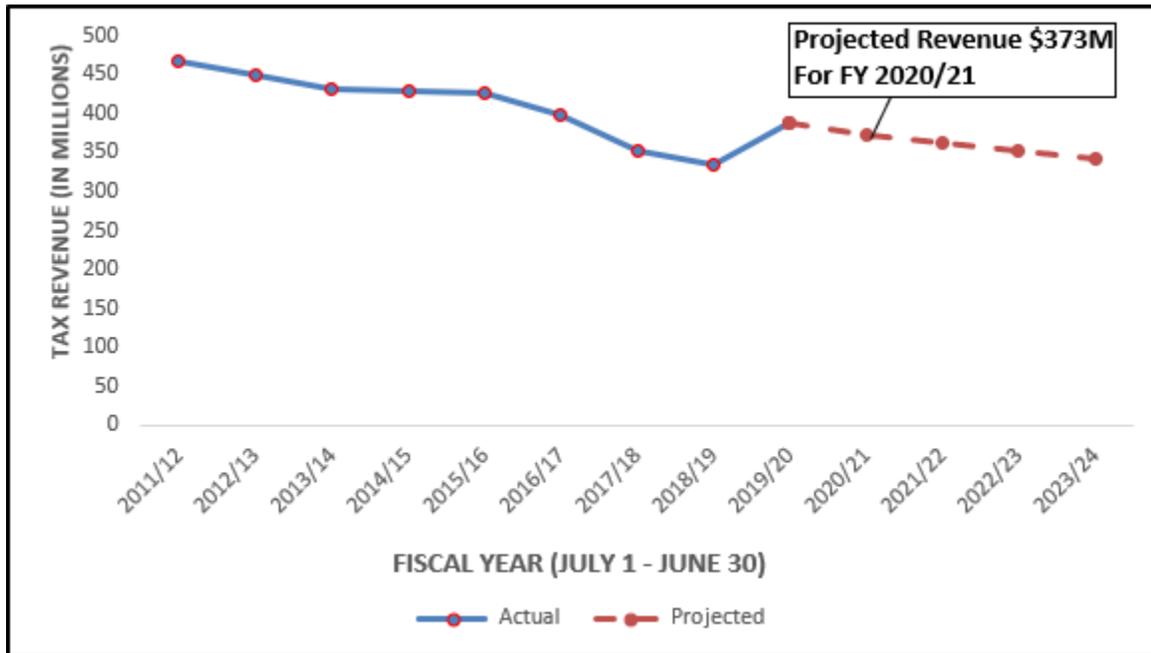
Note: FY 2019/20 reflects an increase in revenue of 16.45% due to Proposition 56 Backfill being significantly higher than the previous fiscal year. F5CA does not expect a revenue increase such as this to reoccur in the future.

**Table 2**  
**FY 2020/21 Revenue Projection Calculation**

<b>Revenue Projections</b>	
Proposition 10	\$ 318,087,000.00
Proposition 56	\$ 85,494,000.00
SMIF Interest	\$ 881,718.00
Less Assessment/Costs	\$ (14,416,882.00)
Less Prop 99 Backfill	\$ (17,119,000.00)
Available to Transfer	\$ 372,926,836.00

Graph 1 below demonstrates the trend for actual and projected tax revenue by fiscal year. With declining revenues and the current uncertainty of these unprecedented times, F5CA continues to monitor funds to ensure its ability to maintain adequate balances to meet obligations and commitments from designated accounts.

**Graph 1  
Actual and Projected Tax Revenue by Fiscal Year**



**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 First 5 California’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 First 5 California’s accounts.

**Collaboration**

F5CA receives tobacco tax revenue monthly from CDTFA in differing amounts, which may significantly vary from month to month. These fluctuations in revenue pose challenges to accurately budget for the fiscal year for both the State Commission and county commissions. In collaboration with the First 5 Association, F5CA continues to engage CDTFA in monthly 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 has aided both the State Commission and county commission in better planning.

### **Year End**

F5CA staff reported at the Commission meeting in August, the hope to present final, reconciled year end financial data for FY 2019/20. F5CA continues to work closely with Department of Finance (DOF), Department of General Services (DGS), and Financial Information System for California (FI\$Cal) to close out FY 19/20. Staff hopes to have this completed in the next few weeks. F5CA will report year end financial data to the Commission in January.

### **ATTACHMENTS**

- A. First 5 California Financial Plan FY 2019/20 through FY 2023/24
- B. First 5 California Fund Condition Summary FY 2019/20 through FY 2023/24
- C. First 5 California Financial Plan Power Point