



January 28, 2021

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 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 2019/20 and projections for FY 2020/21 through FY 2024/25, with the percentage decline from each fiscal year to the next.

The total revenue amount in Table 1 captures Proposition 10 and Proposition 56 backfill, and Surplus Money Investment Fund (SMIF), less Statewide Assessments/ Costs and Proposition 99 Backfill. Table 2 below displays these various components that factor into the projections for FY 2020/21.

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

	Fiscal Year	F5CA 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	\$67,368,183	\$269,472,733	\$336,840,916	-4.05%
Projections	2019/20	\$80,672,204	\$322,688,815	\$403,361,019	19.75%
	2020/21	\$77,335,967	\$309,343,869	\$386,679,836	-4.14%
	2021/22	\$75,007,567	\$300,030,269	\$375,037,836	-3.01%
	2022/23	\$72,990,567	\$291,962,269	\$364,952,836	-2.69%
	2023/24	\$71,063,567	\$284,254,269	\$355,317,836	-2.64%
	2024/25	\$69,229,367	\$276,917,469	\$346,146,836	-2.58%

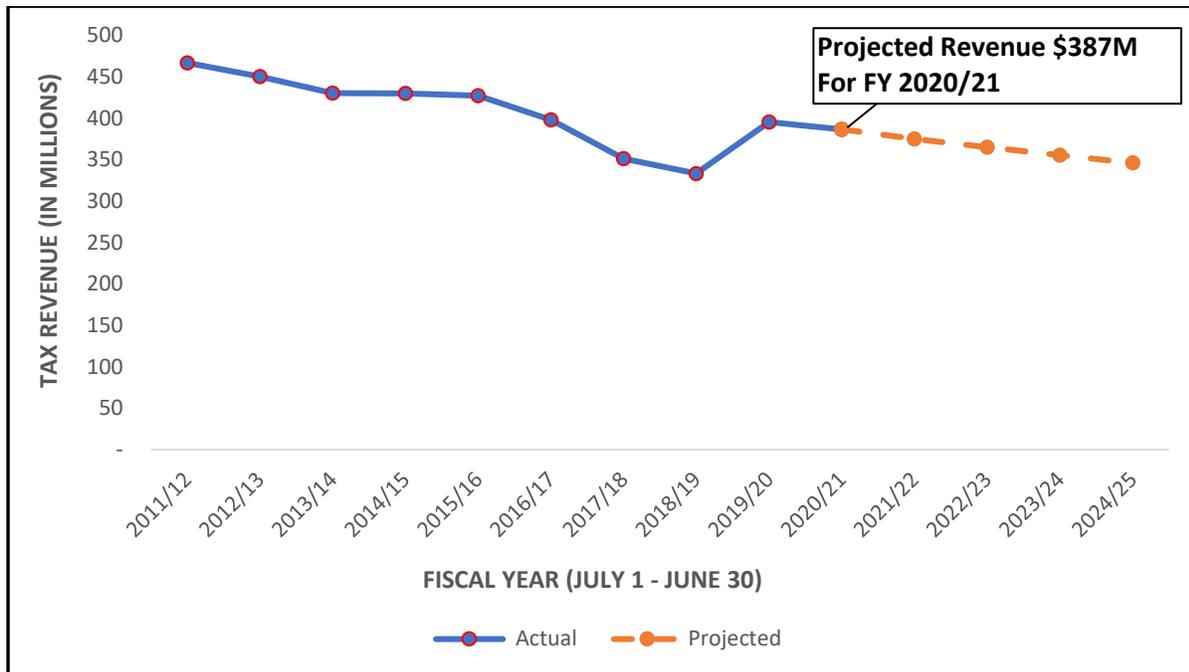
Note: FY 2019/20 reflects an increase in revenue due to Proposition 56 Backfill being significantly higher than the previous fiscal year. F5CA does not expect a revenue increase such as this to reoccur in the future.

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

Revenue Projections	
Proposition 10	\$ 318,087,000.00
Proposition 56	\$ 93,884,000.00
SMIF Interest	\$ 881,718.00
Less Assessment/Costs	\$ (14,416,882.00)
Less Prop 99 Backfill	\$ (11,756,000.00)
Available to Transfer	\$ 386,679,836.00

The Revenue Estimates displayed for California Children and Families First Trust Fund in the Governor's Budget, released January 8, 2021, remains unchanged from the projections provided to F5CA staff in May 2020. Revenue projections in Table 1 reflect an average annual decline in tax revenue of approximately 2.6% for FY 2020/21 though FY 2024/25.

**Graph 1
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.

Proposition 10

CDTFA collects Proposition 10 tax revenue and makes adjustments for statewide assessments, administrative costs incurred by CDTFA and backfill to Proposition 99, prior to transferring funds to the California Children and Families First Trust Fund. For FY 2020/21, F5CA has received Proposition 10 revenue for July through November 2020 for a total of \$125.5M. Of this amount, \$25M was allocated to the State Commission. The average amount of Proposition 10 transferred to the California Children and Families Trust Fund has been approximately \$28M per month. However, in November, CDTFA transferred a total of \$10M, with \$2M being allocated to the State Commission. This low amount was in response to the holidays and the difference will be added to the December revenue amount.

Proposition 56 Backfill

Proposition 56 was approved by voters in November 2016 to increase taxes on cigarettes and other tobacco products, resulting in lower revenue for other tobacco tax funds. Proposition 56 backfill replaces revenue lost attributable to the decline in consumption due to this tax increase.

CDTFA transferred Proposition 56 backfill into the California Children and Families First Trust Fund the end of December 2020 in the amount of \$93.9M, with the State Commission receiving approximately \$18.8M of this amount. Proposition 56 Backfill received in FY 2020/21 was 3% higher than FY 2019/20. Table 3 below reflects the amounts received in both fiscal years. Revenue calculations in Table 2 above have been adjusted to capture the actual amount of Proposition 56 backfill received.

**Table 3
Proposition 56 Backfill**

Proposition 56 Backfill	
FY 2019-20	\$ 91,195,000.00
FY 2020-21	\$ 93,884,000.00

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 Update

F5CA staff has submitted financial statements, closing fiscal year for FY 2019/20.

ATTACHMENTS

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