



October 28, 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

The total Proposition 10 tobacco tax revenue collected by CDTFA for FY 2020/21 (prior to CDTFA adjustments for statewide assessments, administrative costs, and backfill to Proposition 99) was \$334M. Of this amount, \$312M (after adjustments) was transferred to the California Children and Families Trust Fund. The State Commission's share totaled \$62M to administer the Media, Education, Child Care, Research and Development, Unallocated, and Administrative accounts. Until CDTFA submits their FY 20/21 financial statements, total revenue amounts could change.

F5CA recently received the transfer of tobacco tax revenue for the months of July and August 2021. The revenue collected was \$56M (prior to adjustments), with \$53M transferring to the California Children and Families Trust Fund. Compared to last year's revenue transfer for July and August, there is a 5% decline.

**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	\$75,087,606	\$300,350,423	\$375,438,029	-6.92%
	2021/22	\$79,430,339	\$317,721,358	\$397,151,697	5.78%
	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.

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 tobacco tax funds as a result of the decline of purchases and consumption. Last year, CDTFA transferred \$93,884M to the California Children and Families Trust Fund for allocation to the State and county commissions. The State Commission’s share was \$18.7M. Every November, CDTFA releases the backfill determinations based on the changes in consumption that occurred in the previous fiscal year. F5CA generally receives the funding transfer in December and processes it accordingly. At the 2021 May Revise, the projected amount for Proposition 56 backfill was \$93,464M. The transfer amount received in FY 2021/22 would backfill funds for FY 2020/21.

Surplus Money Investment Fund Earnings

Monies deposited into the State Treasury that are determined to be in excess of current needs, are transferred for investment purposes into the Surplus Money Investment Fund (SMIF). Interest earned on investments is apportioned out to funds quarterly pursuant to Government Code section 16475. Current apportionment yield rates can be

found on the State Controller's website at <https://sco.ca.gov/Files-ARD/CASH/smifrate.pdf>.

The following table provides a summary of SMIF revenue by account for fiscal years 2016/17 through 2020/21.

	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
Media	\$ 100,523.99	\$ 155,504.59	\$ 365,341.01	\$ 298,435.18	\$ 97,858.63
Education	\$ 542,029.60	\$ 1,031,057.31	\$ 1,656,914.93	\$ 1,353,552.86	\$ 374,043.87
Child Care	\$ 298,988.66	\$ 596,631.59	\$ 961,564.81	\$ 761,854.28	\$ 200,548.31
Research	\$ 354,214.58	\$ 718,509.05	\$ 1,205,904.77	\$ 1,002,641.68	\$ 269,636.15
Administration	\$ 120,521.81	\$ 150,596.12	\$ 190,640.15	\$ 178,491.04	\$ 44,708.27
Unallocated	\$ 44,520.65	\$ 69,251.69	\$ 103,577.47	\$ 57,877.69	\$ 48,540.56
Total	\$ 1,460,799.29	\$ 2,721,550.35	\$ 4,483,943.14	\$ 3,652,852.73	\$ 1,035,335.79

The decrease in SMIF interest for FY 20/21 is attributed to a significant decrease in the apportionment yield rates, as well as declining fund balance.

SB No. 793

On August 28, 2020, Governor Newsom signed SB 793 (Hill) 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. If upheld, Department of Finance's (DOF) May 2021 Revision forecasted a decline in revenue to begin in FY 2022/23 with a half year impact, and a full year impact beginning in FY 2023/24. F5CA understands both the State and county Commissions utilize projections to determine future long-term planning. F5CA will continue to monitor SB 793.

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.

Year End Update

F5CA has completed a soft close on financial data pending final figures from CDTFA, as they have experienced delays in closing their fiscal year end. Once finalized, F5CA will complete the fund balance reconciliation and share past trends with Commissioners.

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