



July 28, 2022

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 received from the Department of Finance (DOF) in May 2022. 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 FY 2021/22 through FY 2026/27, with the percentage decline from each fiscal year to the next.

For FY 2021/22, the total Proposition 10 tobacco tax revenue collected by CDTFA for the months of July 2021 through May 2022 (prior to CDTFA adjustments for statewide assessments, administrative costs, and backfill to Proposition 99 and the Breast Cancer Fund) was \$287M. Of this amount, \$263.3M (after adjustments) was transferred to the California Children and Families Trust Fund. The State Commission's share totaled \$52.7M to administer the Media, Education, Child Care, Research and Development, Unallocated, and Administration accounts.

In May 2021, the projected amount of Proposition 56 Backfill to be transferred to the California Children and Families Trust Fund in FY 2021/22 was \$93.5M. The actual amount transferred by CDTFA to the Trust Fund was \$96.7M, with 80% being allocated to county commissions and 20% being allocated to the State Commission. 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. The transfer amount received in FY 2021/22 would backfill funds for FY 2020/21.

The following summary table compares the estimated revenues for State Commission operations (excludes the county commissions) with actual revenue received up to May 2022.

### FY 2021-22 State Commission Revenue Allocations

Description	Amount
Department of Finance May 2021 Projection	\$ 80,077,539.00
*Actual Revenue Received to Date (July - May)	\$ 72,000,099.21
Average Monthly Revenue	\$ 4,787,281.75

*\*Actual Revenue Received includes \$52,660,099.21 Proposition 10 Revenue and \$19,340,000.00 Proposition 56 Backfill. Average monthly revenue is based on Proposition 10 revenues received monthly by CDTFA.*

The State Commission anticipates June Proposition 10 revenue to be transferred in late July. Staff will present actual reconciled year-end financial data to the State Commission at the fall Commission meeting.

**Table 1  
Actual and Projected Cigarette and Tobacco Tax Revenue through FY 2026/27**

#### Actuals

Fiscal Year	F5 Commission Tax Revenue Amount	F5 Counties Tax Revenue Amount	Total Revenue Amount	% Change
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%

#### Projections

Fiscal Year	F5 Commission Tax Revenue Amount	F5 Counties Tax Revenue Amount	Total Revenue Amount	% Change
2021/22	\$80,077,539	\$320,310,158	\$400,387,697	6.65%
2022/23	\$73,339,939	\$293,359,758	\$366,699,697	-8.41%
2023/24	\$69,613,939	\$278,455,758	\$348,069,697	-5.08%
2024/25	\$66,266,739	\$265,066,958	\$331,333,697	-4.81%
2025/26	\$64,406,339	\$257,625,358	\$322,031,697	-7.48%
2026/27	\$62,626,939	\$250,507,758	\$313,134,697	-5.49%

*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.*

### **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, DOF 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.

### **May 2022 Budget Planning Discussion Recap**

Last January, F5CA staff provided an overview of First 5 California's (F5CA) current investments and the connection to the North Star Statement and Audacious goal. At the budget planning discussion in May, staff provided an overview of First 5 California's fund accounts, and discussed the impact of declining revenues, as well as the impact of SB 793 should the referendum fail in November. At July's Commission meeting, staff will present to Commissioners proposed future investments for discussion and consideration.

F5CA staff discussed the increase in Pro Rata assessments, which is the recovery of central service costs, over the past several years. Increases can be attributed to factors such as, but not limited to, the following:

- Increases in health and dental costs due to increase premiums and/or increase of employees for the department
- Increase in contracts and agreements, which in turn increases the number of warrants processed
- Additional functions and workload performed by Central Service Agencies. Examples are the inclusion of costs for the State's Financial Information System for California (FI\$Cal) and the Department of General Services Contracted Fiscal Services (DGS CFS) over the past few years

F5CA continues to analyze the assessment to see where costs can be reduced to lessen the financial impact on the Administration fund. Staff are working to engage another State Commission of similar size and structure to see how their assessments are being allocated. This insight will provide helpful guidance on how to navigate rising assessment costs against declining revenues.

At the May meeting, requests were made for additional historical data. F5CA staff continues to work on these requests, with a focus on past expenditure patterns for the Administration account and their impacts. This information will be presented at the October Commission meeting.

### **Year End**

F5CA staff has been working alongside the DGS in preparation to close fiscal year 2021/22. F5CA hopes to have the fiscal year closed by August 31, 2022, and will present reconciled year end data at the October Commission meeting.

### **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.

### **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 2021/22 through 2026/27
- B. First 5 California Fund Condition Summary 2021/22 through 2026/27