Proposition 10: How Does It Work?

What Role Should the Legislature Play in Its Implementation?

Summary

Proposition 10 was enacted by the voters of California in the November 1998 election. It will fund early childhood development programs from revenues generated by increases in the state excise taxes on cigarettes and other tobacco products. The new program will be carried out by state and county commissions.

We estimate that Proposition 10 will result in increased revenues of about $360 million in 1998-99 and about $690 million in 1999-00, with slightly declining amounts annually thereafter.

We believe that while the Legislature has no direct control over the expenditure of Proposition 10 funds, it should take the following actions to encourage the county commissions to spend their funds effectively:

- *Enact legislation to establish a state-funded voluntary matching grant incentive program for Proposition 10 county commissions, which would fund early childhood programs that have been shown to be cost-effective and/or demonstration programs that are potentially cost-effective, based on existing research.*
- *Adopt a joint resolution requesting the state commission to do the following: (1) periodically review and disseminate the findings of early childhood development research to the county commissions, and review and comment on county expenditure plans for consistency with this body of research, and (2) review county plans to ensure that available federal funds are maximized and that local spending is integrated with existing programs.*

SUMMARY OF THE PROVISIONS OF PROPOSITION 10

Proposition 10 created the California Children and Families First Program, which will fund early childhood development programs from revenues generated by increases in the state excise taxes on cigarettes and other tobacco products. Figure 1 summarizes the major features of the measure.

We note that on January 6, 1999, the California Association of Tabacconists filed a lawsuit in the state Supreme Court challenging the constitutionality of Proposition 10 *(California Association of Tobacconists, Inc. et. al. v. Gray Davis et. al.).* At the time this report was prepared, we did not have details on this legal action.

Increased Tax on Tobacco Products

Proposition 10 increases the excise tax on cigarettes by 50 cents per pack beginning January 1, 1999, bringing the total state excise tax to 87 cents per pack. The measure also will increase the excise tax on other types of tobacco products, such as cigars, chewing tobacco, pipe tobacco, and snuff.

The measure increases the excise tax on these other tobacco products in two ways. First, it imposes a *new* excise tax on these products that is equivalent (in terms of the wholesale costs of these products) to a 50 cent per pack tax on cigarettes. Second, the measure increases the *existing* excise tax on these products by the equivalent of a 50 cent per pack increase in the tax on cigarettes. This latter effect—which begins July 1, 1999—occurs because under current law an increased tax on cigarettes also triggers an increased tax on other tobacco products. Thus, the measure ultimately increases the excise taxes on other tobacco products in total by the equivalent of a $1 per pack increase in the tax on cigarettes.

The measure requires that the revenues generated by the *new* excise taxes on cigarettes and other tobacco products be placed in a new special fund—the California Children and Families First Trust Fund. These revenues will fund:

- Early childhood development programs.
- Revenue losses to Proposition 99 health education and research programs and Breast Cancer Fund programs that are the result of the excise taxes imposed by this measure.

The revenues generated by the increase in the *existing* excise tax on other tobacco products will be placed in the Cigarette and Tobacco Products Surtax Fund (for Proposition 99 programs).

Figure 1

Proposition 10
Major Features

General Purpose

- Establish the California Children and Families First Program to support early childhood development programs.

Governance

- State Children and Families First Commission
  - Seven voting members: appointed by Governor (3), Speaker of Assembly (2), and Senate Rules Committee (2). Also two nonvoting members.
  - Adopt statewide guidelines for program.
- County commissions
  - Five to nine members: appointed by county board of supervisors.
  - Adopt strategic plan, consistent with state commission guidelines.

Revenues

- Derived from tax on cigarettes and other tobacco products.
- Estimate about $360 million in 1998-99 and $690 million in 1999-00, with slightly declining amounts annually thereafter.
- Allocate 20 percent for state commission and 80 percent for county commissions.

Expenditures

- State commission must spend funds on (1) mass media campaign, (2) educational activities, (3) support for child care providers, (4) research, and (5) administration.
- County commissions have broad discretion on how to spend funds. Expenditures must be consistent with the purposes of the act (generally, for early childhood development programs).
- Must supplement and not supplant existing levels of service.

California Children and Families First Program

Proposition 10 establishes the California Children and Families First Program to promote early childhood development programs and activities. The program will be funded by the revenues generated by the new tax on cigarettes and other tobacco products. The new program will be carried out by state and county commissions.

State Commission. The measure creates a new state commission—the California Children and Families First Commission—which will be responsible for state-level administration of the early childhood development program. The commission is composed of seven voting members—three appointed by the Governor, two by the Speaker of the Assembly, and two by the Senate Rules Committee—and two ex officio nonvoting members (the Secretary of Health and Welfare and the Secretary of Child Development and Education).

Twenty percent of the available revenues will be allocated annually to the state commission, to be spent for the following purposes:

- ***Mass Media Communications.*** Six percent for mass media communications to the general public related to: methods of child nurturing and parenting which encourage proper childhood development; the selection of child care; health and social services; the prevention of tobacco, alcohol, and drug use by pregnant women; and the detrimental effects of secondhand smoke on early childhood development.
- ***Education.*** Five percent for the development of educational materials and parental and professional education and training.
- ***Child Care.*** Three percent for programs related to the education and training of child care providers and the development of educational materials and guidelines for child care workers.
- ***Research.*** Three percent for early childhood development research and for evaluating such programs and services.
- ***Administration.*** One percent for the administrative functions of the commission.
- ***General Purposes.*** The remaining 2 percent may be used for any of the specific purposes described above, except for the administrative costs of the commission.

County Commissions. Eighty percent of the available revenues will be allocated annually to counties that create county commissions to implement programs in accordance with strategic plans to support and improve early childhood development in the county. The formula for allocating revenues to the county commissions is based on the annual number of births in each participating county.

Each county commission will consist of five to nine members, appointed by the county board of supervisors. At least one member must be from the board of supervisors, and at least two members must be selected from among the county health officer and the county managers responsible for providing children's services, public health services, behavioral health services, social services, and tobacco and other substance abuse prevention and treatment services.

The local strategic plans must be consistent with any guidelines adopted by the state Children and Families First Commission, and must include a description of how programs and services relating to early childhood development in the county will be integrated into a consumer-oriented and easily accessible system.

Unexpended Balances. The measure provides that any funds appropriated to the state and local commissions, and not expended during a fiscal year, shall be carried over to their respective funds in the following fiscal year.

Reporting Requirements. The state and county commissions are required to conduct annual audits of their expenditures and to issue reports on these audits by October 15 of each year. These reports must include the manner in which funds were expended, the progress toward program goals, and the measurement of outcomes. The state commission is further required to submit, by January 31 of each year, a report that summarizes, analyzes, and comments on the audits and reports of the county commissions.

Provision for Amendment. Proposition 10 provides that it may be amended only by a vote of two-thirds of the membership of both houses of the Legislature, and that any such amendment must be consistent with the purposes of the proposition.

Fiscal Effects

Revenues and Expenditures—the California Children and Families First Trust Fund. In our analysis of Proposition 10 in the ballot pamphlet for the November 1998 election, we estimated that the measure would raise revenues of approximately $400 million in 1998-99 (half year) and about $750 million in 1999-00 (first full year), and slightly declining amounts annually thereafter, for the new California Children and Families First

Trust Fund. Since that time, almost all of the states (including California) have agreed to a law suit settlement which requires the four major tobacco companies to make specified payments to the states over a 25-year period. As a result, the companies announced their intention to increase the price of cigarettes, which will have the effect of reducing consumption (purchases) of these products. Lower consumption will, in turn, reduce the revenues that are derived from the tax increase imposed by Proposition 10. After taking this factor into account, we estimate that the new excise tax will raise revenues of approximately $360 million in 1998-99 and about $690 million in 1999-00, with slightly declining amounts annually thereafter. It is important to note that there is some uncertainty surrounding these estimates, due to the difficulty of predicting the effects of both the new taxes and the recent price increases on the consumption of cigarettes and other tobacco products.

Most of the revenues generated by Proposition 10 will fund the costs of the California Children and Families First Program. We estimate that a small amount of the new revenues (about 1 percent) will be used to offset revenue losses to the Breast Cancer Fund and the Cigarette and Tobacco Product Surtax Fund, as discussed below.

Effect on Cigarette and Tobacco Products Surtax Fund Revenues. We estimate that Proposition 10 will result in a decrease in revenues to the Cigarette and Tobacco Products Surtax Fund (Proposition 99). These effects are due to two offsetting factors. First, to the extent that the measure results in a reduction in the sales of cigarettes and other tobacco products, it will *decrease* the revenues generated by the existing excise taxes on these products, beginning January 1, 1999. Second, the measure will *increase* the revenues generated by the *existing* excise tax on other (noncigarette) tobacco products that are allocated to the Cigarette and Tobacco Products Surtax Fund, beginning July 1, 1999. As noted above, this occurs because the measure triggers an increase in this existing excise tax.

Under the requirements of Proposition 10, revenue losses to Proposition 99 health-related education and research programs will be offset by revenues generated by the new excise taxes established by Proposition 10. However, revenue reductions to Proposition 99 health care and resources programs will not be offset. We estimate net revenue losses of about $13 million for Proposition 99 health care and resources programs in 1998-99, and about $3 million annually thereafter after accounting for the effect of the offsetting tax increase discussed above. (The loss in 1998-99 amounts to about 4 percent of the annual Proposition 99 revenues allocated to the accounts that are affected.)

Tax Administration and Enforcement. The State Board of Equalization will incur administration and enforcement costs, related to the additional excise taxes, of about $600,000 to $800,000 annually. These costs will be reimbursed out of the proceeds of the new taxes.

Effect on the State General Fund and Local Tax Revenues. We estimate that Proposition 10 will result in a net increase in General Fund revenues of about $3 million in 1998-99 and $7 million annually thereafter, and an increase in local revenues of about $3 million in 1998-99 and $6 million annually thereafter. These impacts result primarily from the effect of Proposition 10 on tobacco product prices and sales tax revenues.

Allocation of Funds to State and Local Commissions. Based on our estimate of the revenues generated by the Proposition 10 taxes and the amounts needed to fund administration and the specified Proposition 99 (Cigarette and Tobacco Fund) and Breast Cancer Fund losses, the state Children and Families First Commission will receive approximately $70 million in 1998-99 and $135 million in 1999-00, and the county commissions will receive approximately $290 million in 1998-99 and $545 million in 1999-00. Figure 2 (see next page) shows how the local funds will be distributed to the counties, based on our revenue estimates and assuming that all counties choose to participate.

ISSUES FOR LEGISLATIVE CONSIDERATION

Recommendations

We recommend that the Legislature take the following actions, which are designed to encourage the county commissions to spend their funds effectively:

- ***Enact legislation to establish a state-funded voluntary matching grant incentive program for Proposition 10 county commissions, which would fund early childhood programs that have been shown to be cost-effective (specifically including targeted programs based on the Elmira home visiting project) and/or demonstration programs that are potentially cost-effective, based on existing research.***
- ***Adopt a joint resolution requesting the state Children and Families First Commission to do the following, as part of its ongoing oversight activities: (1) periodically review and disseminate the findings of early childhood development research to the county commissions, and review and comment on county expenditure plans for consistency with this body of research, and (2) review county plans to ensure that available federal funds are maximized and that local spending is integrated with existing programs.***

Figure 2

County Allocation of Proposition 10 Revenues Based on LAO Estimated Revenues

1998-99 and 1999-00
(Dollars in Thousands)

County	Births (1997)	Percent of Total	1998-99	1999-00
Alameda	20,766	3.96%	$11,370	$21,631
Alpine	7	0.00	4	7
Amador	270	0.05	148	281
Butte	2,253	0.43	1,234	2,347
Calaveras	327	0.06	179	341
Colusa	307	0.06	168	320
Contra Costa	12,294	2.35	6,731	12,806
Del Norte	324	0.06	177	337
El Dorado	1,666	0.32	912	1,735
Fresno	14,116	2.69	7,729	14,704
Glenn	427	0.08	234	445
Humboldt	1,478	0.28	809	1,540
Imperial	2,381	0.45	1,304	2,480
Inyo	190	0.04	104	198
Kern	11,271	2.15	6,171	11,740
Kings	2,084	0.40	1,141	2,171
Lake	565	0.11	309	589
Lassen	328	0.06	180	342
Los Angeles	162,036	30.91	88,719	168,783
Madera	1,987	0.38	1,088	2,070
Marin	2,651	0.51	1,451	2,761
Mariposa	135	0.03	74	141
Mendocino	1,025	0.20	561	1,068
Merced	3,610	0.69	1,977	3,760
Modoc	98	0.02	54	102
Mono	118	0.02	65	123
Monterey	6,720	1.28	3,679	7,000
Napa	1,499	0.29	821	1,561
Nevada	796	0.15	436	829
Orange	47,487	9.06	26,000	49,464
Placer	2,607	0.50	1,427	2,716
Plumas	156	0.03	85	162
Riverside	23,319	4.45	12,768	24,290
Sacramento	17,312	3.30	9,479	18,033
San Benito	888	0.17	486	925

(Continued)

County Allocation of Proposition 10 Revenues Based on LAO Estimated Revenues ***(Continued)***

1998-99 and 1999-00 (Dollars in Thousands)

County	Births (1997)	Percent of Total	1998-99	1999-00
San Bernardino	28,319	5.40%	$15,505	$29,498
San Diego	43,255	8.25	23,683	45,056
San Francisco	8,196	1.56	4,488	8,537
San Joaquin	8,719	1.66	4,774	9,082
San Luis Obispo	2,491	0.48	1,364	2,595
San Mateo	10,050	1.92	5,503	10,468
Santa Barbara	5,789	1.10	3,170	6,030
Santa Clara	26,416	5.04	14,464	27,516
Santa Cruz	3,559	0.68	1,949	3,707
Shasta	2,000	0.38	1,095	2,083
Sierra	12	0.00	7	12
Siskiyou	425	0.08	233	443
Solano	5,475	1.04	2,998	5,703
Sonoma	5,409	1.03	2,962	5,634
Stanislaus	6,790	1.30	3,718	7,073
Sutter	1,210	0.23	663	1,260
Tehama	627	0.12	343	653
Trinity	100	0.02	55	104
Tulare	6,934	1.32	3,797	7,223
Tuolumne	467	0.09	256	486
Ventura	11,281	2.15	6,177	11,751
Yolo	2,106	0.40	1,153	2,194
Yuba	1,046	0.20	573	1,090
Totals	**524,174**	**100.0%**	**$287,000**	**$546,000**

Analysis

Proposition 10 will result in a significant increase in funding for programs related to early childhood development. A key issue, therefore, is ensuring that these funds will be spent effectively.

Most of the Proposition 10 revenues will go to the county commissions. This local control is likely to facilitate responsiveness to local needs, but with up to 58 commissions and the broad discretion that they have in allocating their revenues, it will be a challenge to ensure that the funds will be spent effectively. County strategic plans must describe how program outcomes will be measured and must be consistent with whatever guidelines the state commission adopts, but specific spending plans do not have to be reviewed or approved at the state level.

The Legislature has no direct control over the expenditure of Proposition 10 funds, and as such its role is a limited one. Nevertheless, the Legislature does have an opportunity to influence decisions taken by the state and, more importantly, the county commissions. Below we explain our recommendations to the Legislature, which are designed to encourage the effective use of Proposition 10 funds.

Research on Early Childhood Program Interventions. The research literature includes numerous studies of programs that are designed to affect early childhood development. To summarize briefly, the research indicates that:

- Many early childhood programs—including preschool, child development/day care, nutrition, and home visiting programs—have been shown to be effective in changing one or more of the performance indicators that were measured (such as school achievement, health status, child abuse, and criminal activity). In a review completed by the RAND Corporation in 1998, for example, nine such programs were listed. Most of these are small-scale programs that are targeted to disadvantaged children or "at-risk" families.
- Only a few of these programs have been evaluated for cost-effectiveness. The RAND study identified two—the Perry Preschool program and the Elmira home visiting program (when targeted to high-risk families)—as having demonstrated cost-effectiveness.

These findings provide a basis for the Legislature to consider the possibility of establishing incentives for local county commissions to allocate funds to support the replication of programs that have been shown to be effective. This can take the form of (1) the expansion of programs where cost-effectiveness has been demonstrated and where the target population is not currently being served or is underserved, or (2) the establishment of demonstration programs to evaluate the cost-effectiveness of new interventions or existing model programs or variations of these programs.

Home Visiting Programs. We believe that targeted home visiting programs based on the Elmira, New York Prenatal/Early Infancy Project warrant consideration for expansion in California. Under this program, professional nurses, trained in parent education, conducted home visits to families during the mother's pregnancy and continuing until the child is two years old. On average, the nurses conducted 32 visits per family during this period. The nurses provided guidance in various areas related to the child's and mother's personal health and development, and facilitated the establishment of support networks and the linkage to other health and human services.

Studies of the program (using a control group/experimental group research design) indicated that it resulted in a variety of short-term and long-term health and social benefits (for example, better nutrition during pregnancy and fewer reported incidents of child abuse and neglect), particularly for the high-risk families (single mothers with low socioeconomic status). The RAND study estimated that when targeted to high-risk families, the Elmira program resulted in a net savings to government of $18,600 per family, with the caveat that the program costs accrue immediately whereas the benefits are realized over a long period of time (all costs and savings were discounted to "present value" dollars). About three-fourths of the savings were from reduced welfare, criminal justice, and health costs, with the remainder from taxes associated with increased employment.

The program has been replicated in an urban setting in Memphis, Tennessee, and early results from the evaluation indicate that the outcomes are generally consistent with those found in Elmira.

We note that the state is already participating in the operation and evaluation of two home visiting pilot projects. The first project was established in 1995 by the Center for Child Protection at the Children's Hospital in San Diego to replicate the Healthy Families America home visiting model (which is based on a program developed in Hawaii). It serves "high-risk" families, using paraprofessional home visitors (in other words, not restricted to licensed nurses) in a team approach, in addition to center-based activities for parents and children. Services begin at the child's birth and continue to age three. The frequency of the home visits is reduced over the time period. The final evaluation is expected in July 2000, and will include a cost-effectiveness analysis.

The second pilot project—the California Safe and Healthy Families (Cal-SAHF) Program—was developed in 1997 by the state Department of Social Services (DSS) and the Center for Child Protection and currently operates in seven sites in California. It is very similar to the San Diego project. The Cal-SAHF Program uses paraprofessional home visitors, aided by a multidisciplinary team (which includes a nurse, a child development specialist, and other specialists), to serve at-risk families with children from birth up to age three. Home visits are supplemented with center-based activities, and the intensity of services generally is reduced over the time period. The department estimates that the average annual cost per family is about $2,400. The evaluation of outcomes is expected to be submitted to the Legislature in about three years.

Both of the California pilot projects draw upon theory and concepts of the Elmira program. The main differences are that the pilot projects (1) use a broader set of factors in determining eligible "at risk" families, (2) rely upon a paraprofessional home visitor and a multidisciplinary team, and (3) incorporate center-based activities (such as parenting classes, parent support groups, and group activities for children). The main difference between the San Diego and Cal-SAHF projects is that the San Diego team approach uses child development and group specialists, whereas the Cal-SAHF Program adds a nurse and other specialists in areas such as substance abuse.

We also note that the DSS, in conjunction with the Office of Criminal Justice Planning, is developing another project which incorporates home visiting and family resource center concepts into a broad prevention and treatment program for child abuse and neglect.

Matching Grant Program. While replication of the Elmira program in California is not likely to yield precisely the same cost-effectiveness outcomes calculated in the RAND report, we believe it is reasonable to assume that the benefits would outweigh the costs to the state and county governments. This raises the question of whether consideration should be given to funding the establishment of home visiting projects that are sufficiently similar to the Elmira model that taxpayers can have some assurance of their cost-effectiveness, while at the same time evaluating the cost-effectiveness of other home visiting models. We believe that it would be reasonable to do so.

It also makes sense to evaluate the potential of other early childhood interventions. While relatively few programs have been analyzed on the basis of cost-effectiveness, a large number have been shown to result in positive outcomes. The Office of Juvenile Justice and Delinquency Prevention in the U.S. Department of Justice, for example, recently published the results of a review of "family strengthening" programs, which identified 34 noteworthy programs, including nine that focus on families with children under six years of age. Such programs could serve as the basis for initiating pilot projects in California.

Consequently, we recommend that the Legislature establish a state-funded voluntary matching grant program for the Proposition 10 county commissions, which would fund (1) early childhood programs that have been shown to be cost-effective (specifically including targeted programs based on the Elmira home visiting project) and/or (2) demonstration programs that are potentially cost-effective, based on existing research. (As implied above, demonstration programs are small-scale projects designed to test the effectiveness or cost-effectiveness of the program or specific aspects of the program.)

The primary purpose of this matching grant program would be to create a fiscal incentive to encourage the county commissions to use their funds productively. We believe that a 1:3 state/local match would provide a sufficient incentive. Thus, a state appropriation of $15 million, for example, would match up to $45 million in local funds.

We also suggest that if such a program is adopted, it be administered initially by the DSS, with the assistance of an advisory group that includes representatives from other departments. While early intervention activities are not restricted to social services, the DSS has some expertise in this area and currently oversees the Cal-SAHF home visiting pilot project. This expertise is important because the administrative agency will have to make judgments on the potential effectiveness and cost-effectiveness of the local proposals. At some time in the future, the state Children and Families First Commission—if appropriately staffed—could assume responsibility for administering the program.

Role of the State Commission. Proposition 10 requires the state commission to spend its revenues in specified ways. As noted above, there are no such restrictions on county commission expenditures, and the state commission does not have direct control over specific spending plans at the local level. The state commission, however, can take certain actions to facilitate the cost-effective use of funds allocated to the counties.

First of all, the commission could periodically review the research on early childhood development and programs, and disseminate this information to the county commissions. The commission could also review county expenditure plans and comment on them, with respect to whether these proposals are consistent with the research.

Second, the commission could assist the counties to ensure that they receive federal funds that are available for their proposals. While it is not known at this time specifically how the Proposition 10 funds will be used, it is likely that some of the funds will be allocated for activities that are eligible for federal matching funds. To receive these funds, however, the federal eligibility criteria must be met and reimbursement generally must be claimed through the responsible state agency. The state commission could adopt a review process to ensure that programs funded by the state and county Proposition 10 commissions are implemented in a manner so as to maximize available federal funds.

In addition, the state commission could review the county plans to determine if they are integrated and consistent with existing child development programs. This would help to facilitate the cost-effective use of the funds allocated to the local commissions.

Accordingly, we recommend that the Legislature adopt a joint resolution requesting the state commission to take these actions.