

State Revenues Strong despite Headwinds

By Patti F. Herrera, and John Gray November 18, 2020



its November 2020 [Finance Bulletin](#), the Department of Finance (DOF) reports that even against the headwinds brought about by the global health pandemic, state revenues continue to outperform earlier projections while the California economy remains stable.

Job gains in the U.S. continue to pick up after unemployment skyrocketed earlier this spring. In October 2020, national unemployment was 6.9% compared to its peak of 14.7% in April. The improved employment picture has been accompanied by a better picture of the overall economy. The U.S. economy experienced a significant rebound in the third quarter of this year with gross domestic product (GDP)—while still below pre-pandemic levels—increased by over 33% on an annualized basis. California’s share of the national GDP measures at just under 15%. The housing market continues to be a bright spot in the economy with single family housing activity leading the sector.

As for revenues, the DOF reports that, year-to-date, the state has accrued \$11.3 billion more in revenue than what was assumed in the 2020 Budget Act. Each of the “big three” taxes are outperforming expectations with personal income tax (PIT) receipts generating nearly \$8.8 billion more than expected. October 2020 revenues were \$2 billion more than monthly projections. PIT receipts alone generate two-thirds of state General Fund revenues. Sales tax and corporation tax revenues also beat monthly expectations by \$423 million and \$245 million, respectively, and continue to outpace budget estimates on a year-to-date basis by \$2.06 billion and \$574 million, respectively.

This is certainly welcomed news for State Budget and Proposition 98 hawks. Since education funding is likely to be determined by Test 1 in 2021–22 and the near future, Proposition 98 receives just over 38% of every new state dollar. With state revenues \$11.3 billion above what was used to size the 2020–21 State Budget and the Proposition 98 minimum guarantee, the current-year guarantee stands to increase by about \$4.3 billion compared to the Enacted Budget level of \$70.9 billion. While this is certainly good news, we caution that the state continues to operate an education budget deficit as spending authority is higher than the minimum guarantee, so the better-than-expected revenues simply narrow the deficit’s margin going into the budget year.

The Legislative Analyst’s Office released its annual [Fiscal Outlook](#) that includes an in-depth forecast of Proposition 98. The report provides better context for the raw state revenues included in the DOF’s bulletin.