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FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

DOF Releases February Finance Bulletin



BY [ROBERT MCENTIRE, EDD](#)

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The Department of Finance issued its first monthly [Finance Bulletin](#) of the 2021 calendar year. It memorializes the financial results for the first seven months of the 2020–21 fiscal year, while providing a summary of changes in economic conditions in the 2020 calendar year.

The *Finance Bulletin* highlighted that the economic decline in 2020 was driven chiefly by losses in service sector jobs, causing U.S. gross domestic product (GDP) to fall by 3.5%, making it the largest decrease in modern history. Labor conditions at the state and national level rebounded considerably, but labor participation rates have dropped 2.0 percentage points below the prior year. Slower than expected growth in November and December caused California's unemployment rate to reach 9.0% in December (up 0.9 percentage points) compared to 6.3% across the U.S. in January 2021. There are 5.6 million fewer people employed nationally and 1.5 million fewer Californians employed in December than in February 2020. Nearly a third of Californians who remain unemployed have left the labor force.

Housing units authorized in California averaged 102,800 per month in 2020, an 8.8% dip from 2019. Segregation of the data shows that single-family units increased 0.3% to 58,500, while multifamily units decreased by 18.5% to 44,300. Consistent with recent history, limited supply and low-interest rates continue to contribute to increasing housing prices. California's median average home price for a single-family home grew 11.3% to \$659,380 in 2020. Median home prices at year-end were \$717,930, setting new record highs five times for the year. As one would expect, high sales volume often corresponds with price increases, and home sales volume averaged 411,870 units in 2020, 3.5% over the prior year.

A booming economy and housing market often spark concerns about inflation. However, annual inflation slows at the state and federal levels, with California slowing from 3.0% in 2019 to 1.7% in 2020. National inflation also slowed from 1.8% in 2019 to 1.2% in 2020.

Despite minor slowing in recovery over November and December, the state's General Fund continues to enjoy robust revenues that outperform the forecasted numbers used in the recently-released 2021–22 Governor's Budget proposal. For the first seven months of the year, state revenues are \$10.5 billion (9.9%) above projections, while revenue collections from January are \$7.45 billion (40.9%) higher than forecast. Closer examination of the "Big Three" taxes year-to-date show personal income tax (PIT) receipts are \$9.8 billion

above estimates while sales and use tax (SUT) and corporation tax (CT) receipts are \$167 million and \$493 million over their forecast, respectively. The *Finance Bulletin* notes that \$1.1 billion of the overages have already been apportioned through the Governor's Golden State Stimulus.

As an education community, we should take a moment to enjoy positive news—even if the moment is brief. Recent media attention has focused on the idea that continued stimulus will overheat the economy and drive-up inflation which would impact prices of goods and services, and ultimately impact the major indices of the stock market. The next major marker for tax collections will be April when taxpayers make their final tax payments for the 2020 calendar year. At that point, the financial landscape will be much clearer, and we'll know whether the recent revenue collections were simply an acceleration of tax payments, or if California's revenues are really that strong.