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FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

State Revenues at Stratospheric Levels

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State Budget hawks have long expected California revenues leading up to the release of Governor Gavin Newsom's fourth Budget proposal to exceed 2021 Budget Act projections. The Department of Finance's (DOF) December [Finance Bulletin](#) affirms these expectations, reporting that state year-to-date revenues for the current fiscal year exceed budget estimates by \$13.4 billion. November alone saw revenues nearly \$2.2 billion higher than monthly projections. Each of the "Big Three" taxes that generate the lion's share of state General Fund revenues are outperforming expectations by double-digit percentages, as shown below.

"Big Three" Taxes			
Year-to-date, in millions			
	Projection	Actual	Change
Personal Income Tax	\$35,786	\$45,220	\$9,434 (26.4%)
Sales and Use Tax	\$11,359	\$12,755	\$1,369 (12.3%)
Corporation Tax	\$3,331	\$5,181	\$1,849 (55.5%)

To highlight the significant growth, personal income tax revenues from the same period two years ago totaled \$31.47 billion. The total of \$45.22 billion in the current Finance Bulletin represents an increase of nearly \$14 billion, or 43%.

These revenues create a significant budget surplus that will heavily influence Governor Newsom's 2022 State Budget proposal, which is slated to be released on or before January 10, 2022. This bodes well for K-12 school agencies and community colleges because under the Proposition 98 minimum guarantee, K-14 public education stands to gain forty cents (\$0.40) of every unanticipated dollar that the state receives.

Robust state revenues come with some sobering (though not unexpected) data around headline inflation, which increased at the national level by 6.8% in November and in California by 5.6% in October. Inflationary pressures continue to occupy economists, monetary, and fiscal policymakers because it is proving to be

persistent. Continued high consumer demand for goods juxtaposed by scarce supply and labor shortages threaten to protract current inflation trends. Moreover, the economic disruption of the omicron variant is exacerbating economic pressures.

On a more positive note, unemployment continues to abate. Both the U.S. and California unemployment rates decreased by 0.4%—to 4.2% and 6.9%, respectively—in November with most sectors, such as leisure and hospitality and manufacturing, gaining jobs. Rise in employment is accompanied by increases in personal income (due largely to wage and salary growth) of 3.4% and 5.2% in the third quarter of 2021 for California and the nation, respectively.

Housing supply and affordability issues persist in California. While October 2021 housing permits are up from 2019 and 2020 levels, median home prices remain nearly 12% higher than a year ago November, at \$782,480.