

COMMUNITY COLLEGE UPDATE

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

Revenues Beating Budget Projections

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On October 22, 2024, the Department of Finance released its October 2024 [Finance Bulletin](#) with positive news about the economy and state General Fund revenues. Both the U.S. and California economies continued trend-level growth in the second quarter of the year at of 3.0% and 2.8%, respectively. Steady growth suggests that the Federal Reserve's (Fed) management of monetary policy in response to rising costs averted a hard landing for the economy. You will recall that the Fed reduced the federal funds rate by an aggressive 50 basis points earlier this fall, feeling confident that prices and the labor market were reaching a reasonable balance and that the economy was headed in the right direction. Headline inflation, inclusive of food and energy, was just above the Fed's target rate of 2.0%, at 2.4% at the end of September.

Labor and Housing Market

As for the labor market, California's unemployment rate continues to be one of the highest in the nation at 5.3% in September, compared to 4.1% for the nation. Nevertheless, according to the *Finance Bulletin*, the state added 14,700 nonfarm jobs last month primarily in the private

education, health services, and government sectors, which combined added 13,400 jobs. Conversely, California’s leisure and hospitality and information sectors lost a combined 6,800 jobs last month; these sectors added jobs in September across the nation.

The state’s housing market continues to face challenges with single- and multi-family permits down 6.8% from last year. The statewide median price for single-family homes decreased 2.3% from August to September 2024 (to \$868,150) but is still up 2.9% from last year when the median price for a home was \$843,150.

State General Fund Revenues—“Big Three” Taxes

Consistent with larger economic trends, tax revenues from the “Big Three” taxes—personal income, sales and use, and corporation taxes—are exceeding budget projections by \$4.1 billion for the 2024-25 fiscal year. Moreover, revenues for the last three months of 2023-24 are also outpacing budget estimates by \$3.2 billion, according to the *Finance Bulletin*.

2024-25 “Big Three” Tax Revenues (in millions)

	Projection	Actual	
Personal Income	\$24,198	\$26,786	
Corporation	\$3,335	\$4,738	
Sales and Use	\$8,008	\$8,076	
Total	\$35,541	\$39,600	

Proposition 98 Impact

Better-than-expected state General Fund revenues typically accrue benefits for Proposition 98 and education funding. In 2024-25, this is especially true given the lawmakers' decision to suspend (or reduce) the minimum guarantee in 2023-24, which in turn creates an obligation (referred to as the maintenance factor) for the state to restore education funding to what it should have been without suspension. Recall that in June the minimum guarantee for 2023-24 was calculated to be \$106.8 billion, and the state funded \$98.5 billion of this obligation, creating an approximate \$8.4 billion maintenance factor obligation. Also in June, the state made a \$4.1 billion maintenance factor payment toward this debt to K-14 education.

Because state revenues are above the projections assumed in the budget, it could mean that the state would be obligated to spend most of every surplus dollar to fulfill its obligation to K-12 and community college agencies.

We will have a clearer picture of what state General Fund revenue performance means for Proposition 98 when the Legislative Analyst's Office releases its annual *Fiscal Outlook* report in mid-November and again when Governor Gavin Newsom releases his 2025-26 State Budget proposal on January 10, 2025.