REVENUE ESTIMATES

Entering 2020, the U.S. economy had experienced the longest expansion in its history. Despite this record period of growth, inequality increased substantially since the Great Recession, with the greatest income gains going to those individuals who already had significant wealth. In the second quarter of 2020, the long-running economic expansion came to an end as the COVID-19 Pandemic forced dramatic downturns in many industries and almost complete shutdowns in others. The COVID-19 Pandemic has exacerbated inequality as most of the job losses fell on low-wage earners. Because withholding actually increased somewhat during 2020 in the face of record unemployment and significant wage declines, it appears that high-wage taxpayers have not been significantly adversely affected by the economic downturn caused by the COVID-19 Pandemic.

In addition to strong wage growth, the rebounding stock market means that capital gains, which accrue largely to high-income households, are likely to show strong growth this year. Because the economic pain of the COVID-19 Pandemic has been felt largely by low-income taxpayers, and because of California's progressive tax structure, California's revenues have only suffered a moderate slowdown, much smaller than what was expected when the 2020 Budget Act was adopted last June. As discussed in the Economic Outlook Chapter, the Governor's Budget forecast did not include the federal relief bill enacted in late December, and the additional low-income support will reduce the risks to those households. The effects of the federal relief bill will be included in the May Revision forecast, but at this time its effects on higher-income households and revenues are expected to be minimal.

The General Fund revenue forecast has improved dramatically relative to the 2020 Budget Act. As a result, before accounting for transfers such as to the Budget Stabilization Account, General Fund revenue is higher than the 2020 Budget Act projections by nearly $71 billion from 2019-20 through 2021-22. The Governor's Budget reflects actual and anticipated reimbursements from the federal government totaling approximately $9.9 billion for reimbursement of costs associated with the state's response to recent (2017, 2018, and 2020) wildfires and the COVID-19 Pandemic.

The 2021-22 Governor's Budget General Fund Revenue Forecast figure compares the revenue forecasts, by source, in the 2020 Budget Act and the Governor's Budget.

Revenue, including transfers, is expected to be $163 billion in 2020-21 and $158 billion in 2021-22. The projected increase since the 2020 Budget Act can be attributed to three main factors: a less severe economic downturn than was anticipated at the 2020 Budget Act, a significantly greater unequal spread of the wage losses in the downturn between high-wage and lower-wage segments of the population, and a stronger stock market than was expected. The personal income tax forecast has been significantly upgraded, reflecting all three of the factors. The sales tax forecast has improved considerably due to the less severe recession and the consequently improved outlook for consumption of tangible goods and for investment. The corporation tax forecast has improved moderately primarily reflecting a reduced downturn in proprietorship income. Over the next three fiscal years, personal income tax is up almost $58 billion, sales tax is up almost $9 billion, and corporation tax is up $1.3 billion. Accruals of revenues to previous years for corporation tax, personal income tax, and sales tax reduce the 2018-19 beginning balance by $560 million.

The Capital Gains Revenue figure shows revenue from capital gains as a percentage of total General Fund tax revenue. As seen from this figure, the amount of capital gains revenue in the General Fund can vary greatly over time and from year to year. For instance, in 2009, capital gains contributed only $2.3 billion to the General Fund. By 2012, that revenue had increased to $10.4 billion, and for 2020 it is expected to hit $17.3 billion—the highest amount ever.

The Capital Gains Realizations figure shows capital gains reported on California tax returns from 1970 through projections for 2021. Although the level of capital gains has grown significantly since 1970 (along with the economy and total personal income tax revenue), capital gains volatility has been a constant. History shows that high levels of capital gains eventually drop off.

2021-22 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2020 Budget Act
(Dollars in Millions)

Source	2020 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2019-20: Preliminary				
Personal Income Tax	$95,566	$99,509	$3,943	4.1%
Sales & Use Tax	24,941	25,495	555	2.2%
Corporation Tax	13,870	14,035	165	1.2%
Insurance Tax	3,052	3,128	76	2.5%
Alcoholic Beverage	385	383	-2	-0.6%
Cigarette	58	60	3	4.5%
Pooled Money Interest	547	516	-31	-5.6%
Other Revenues	3,209	1,943	-1,266	-39.4%
Subtotal	$141,628	$145,070	$3,442	2.4%
Transfers[1/]	-4,003	-4,447	-444	11.1%
Total	**$137,625**	**$140,623**	**$2,998**	2.2%
Fiscal 2020-21				
Personal Income Tax	$77,567	$102,208	$24,641	31.8%
Sales & Use Tax	20,583	26,508	5,926	28.8%
Corporation Tax	16,534	16,948	414	2.5%
Insurance Tax	2,986	3,253	267	8.9%
Alcoholic Beverage	389	385	-4	-1.0%
Cigarette	56	55	-1	-1.9%
Pooled Money Interest	184	105	-79	-42.8%
Other Revenues	7,076	4,158	-2,917	-41.2%
Subtotal	$125,374	$153,621	$28,247	22.5%
Transfers[1/]	12,345	9,121	-3,224	-26.1%
Total	**$137,719**	**$162,742**	**$25,023**	18.2%
Fiscal 2021-22				
Personal Income Tax	$77,517	$107,360	$29,843	38.5%
Sales & Use Tax	$23,634	25,925	2,291	9.7%
Corporation Tax	15,899	16,636	737	4.6%
Insurance Tax	3,088	3,319	231	7.5%
Alcoholic Beverage	393	389	-4	-0.9%
Cigarette	54	46	-8	-14.2%
Pooled Money Interest	89	22	-66	-74.8%
Other Revenues	1,918	7,876	5,958	310.6%
Subtotal	$122,592	$161,574	$38,982	31.8%
Transfers[1/]	6,693	-3,204	-9,897	-147.9%
Total	**$129,285**	**$158,370**	**$29,085**	22.5%
Three-Year Total			**$57,106**	

Totals may not add because of rounding.

[1/] Includes transfers to or from the Budget Stabilization Account for each year.

The highest-income Californians pay a large share of the state's personal income tax. For the 2018 tax year, the top 1 percent of income earners paid over 46 percent of personal income taxes. This percentage has been greater than 40 percent in every year since 2004, except for 2009. The share of total adjusted gross income from the top 1 percent of income earners has increased from 13.8 percent in 1993 to 24 percent in 2018. This number has exceeded 20 percent also in every year since 2004, except for 2009. Consequently, changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

Capital Gains Revenue
As a Percent of General Fund Tax Revenues
(Dollars in Billions)

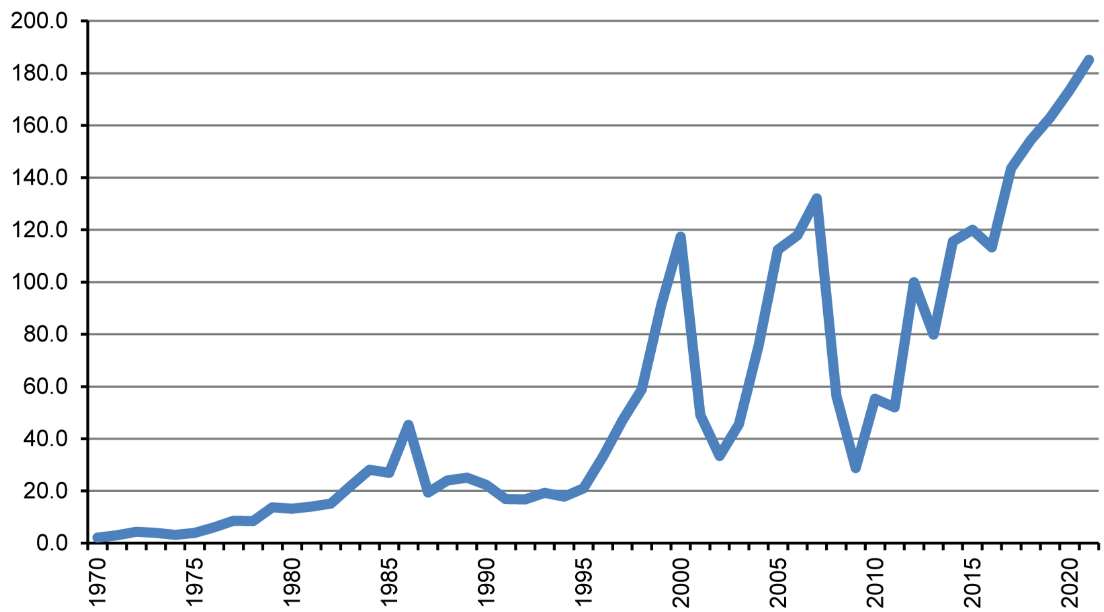
Annual Values	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018[e/]	2019[e/]	2020[e/]	2021[e/]
Capital Gains Realizations	$28.8	$55.3	$52.1	$99.9	$79.9	$115.5	$120.1	$113.2	$143.6	$154.4	$162.9	$173.5	$185.1
Tax Revenues from Capital Gains	$2.3	$4.7	$4.2	$10.4	$7.6	$11.3	$11.8	$11.5	$14.1	$15.4	$16.1	$17.3	$18.5

Fiscal Year Values	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22
Tax Revenues from Capital Gains	$3.0	$4.5	$6.0	$9.6	$8.7	$11.5	$11.7	$12.3	$14.4	$15.6	$16.5	$17.6	$18.2
Total General Fund Tax Revenues[1/]	$86.6	$92.0	$85.3	$97.6	$103.0	$113.8	$118.9	$122.1	$135.1	$144.5	$145.1	$156.0	$161.6
Capital Gains Percentage	3.4%	4.9%	7.1%	9.8%	8.5%	10.1%	9.9%	10.0%	10.7%	10.8%	11.4%	11.3%	11.3%

[1/]Excluding transfers.

[e/]Estimated

Capital Gains Realizations
(Dollars in Billions)



These two related phenomena—significant reliance of the General Fund on capital gains and on taxes paid by a small portion of the population—underscore the difficulty of forecasting personal income tax revenue. Proposition 2 helps address some of the state's revenue volatility by requiring the transfer of capital gains revenue that is greater than 8 percent of General Fund tax revenue to the Rainy Day Fund and to pay down state debts. The Rainy Day Fund can be drawn down only if the Governor declares a budget emergency and, even then, no more than 50 percent of the Fund can be drawn down in the first year.

SYSTEM OF TAXATION

The state's tax system is detailed in the Outline of State Tax System figure. Tax collections per capita and per $100 of personal income are displayed in Schedule 2 in the Appendix. The revenue generated from each state tax from 1970-71 through 2021-22 is displayed in Schedule 3 in the Appendix.

Although there are a variety of taxes in California’s tax system, the system is heavily dependent on the personal income tax, and particularly on personal income taxes paid by high-income individuals. While this dependence leads to a greater level of volatility, it has actually been a buffer for revenues in the current recession. This economic downturn has had a significant negative impact on lower-wage households, but the taxpayers who California depends on for much of its tax revenue have generally not been impacted as severely, and have, in some cases, actually benefited from current economic conditions.

The past two recessions in 2001 and 2008 have led to significant revenue declines because the economic distress was spread more evenly over the population and because the stock market suffered significant and long-term declines. In 2001, income earned by the top 1 percent fell from 27 percent of the total in the prior year to just under 20 percent and net capital gains realizations fell from $120 billion to $42 billion. In 2008, the share earned by the top 1 percent fell from 25 percent to 21 percent and capital gains realizations fell from $132 billion to $56 billion. In those two years, personal income tax revenues dropped by 26 percent and 20 percent, respectively. For 2020, the share of income is likely to increase for the top 1 percent of tax returns, capital gains realizations are forecast to increase from $163 billion to $173 billion, and personal income tax revenue is expected to grow by 5 percent.

One of the main reasons this recession was less severe than anticipated was the unprecedented level of federal assistance provided, including direct payments to many households, loans and grants for businesses to help them keep workers employed, and enhanced unemployment benefits. In fact, personal income in 2020 is expected to grow by 4.9 percent, due largely to more than $150 billion in additional transfers in the form of stimulus checks and unemployment insurance. The personal income series is different from income that is taxable for personal income tax purposes. In particular, taxable income does not include transfers. On the other hand, taxable income includes capital gains, whereas personal income does not. There are other differences between personal income and taxable income, but these two are the most significant.

Outline of State Tax System as of January 1, 2021

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes				
Beer	Gallon	$0.20	Equalization	General
Distilled Spirits	Gallon	$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	$0.20	Equalization	General
Sparkling Wine	Gallon	$0.30	Equalization	General
Hard Cider	Gallon	$0.20	Equalization	General
Corporation				
General Corporation[1/]	Net income	8.84%	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. taxable income	6.65%	Franchise	General
Tobacco				
Cigarette[2/]	Package	$2.87	Tax & Fee Admin	See footnote
Other Tobacco Products[3/]	Wholesale cost	56.93%	Tax & Fee Admin	See footnote
Insurance				
Insurers[4/]	Gross premiums	2.35%	Insurance Dept.	General
Cannabis				
Cannabis Excise	Retail cost	15.00%	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Flower	Ounce	$9.65	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Trim	Ounce	$2.87	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Fresh Plant	Ounce	$1.35	Tax & Fee Admin	Cannabis Tax Fund
Motor Vehicle				
Vehicle License Fees (VLF)[5/]	Market value	0.65%	DMV	VLF, Local Revenue
Transportation Improvement Fee	Market value	$25-$175	DMV	Transportation
Fuel—Gasoline[6/]	Gallon	$0.505	Tax & Fee Admin	Motor Vehicle Fuel
Fuel—Diesel[7/]	Gallon	$0.39	Tax & Fee Admin	Motor Vehicle Fuel
Registration Fees[8/]	Vehicle	$92.00	DMV	Motor Vehicle
Weight Fees	Gross vehicle wt.	Various	DMV	State Highway
Personal Income[9/]	Taxable income	1.0-12.3%	Franchise	General
Proposition 63 Surcharge	Taxable income > $1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. taxable income	7.0%	Franchise	General
Retail Sales and Use[10/]	Sales or lease of taxable items	7.25%	Tax & Fee Admin	See footnote

[1/] Minimum Tax is $800 per year for existing corporations. New corporations are exempt for their first taxable year.

[2/]This tax is levied at the combined rate of 10 cents/pack of 20 cigarettes for the General Fund, 25 cents/pack for the Cigarette and Tobacco Products Surtax Fund, 2 cents/pack for the Breast Cancer Fund, 50 cents/pack for the California Children and Families First Trust Fund, and $2 for the California Healthcare, Research and Prevention Tobacco Tax Act of 2016. The additional $2 excise tax was effective as of April 1, 2017.

[3/]The surtax rate is determined annually by the California Department of Tax and Fee Administration and is equivalent to the combined rate of tax applied to cigarettes, with funding for the Cigarette and Tobacco Products Surtax Fund and California Children and Families First Trust Fund. Effective July 1, 2019, through June 30, 2020, the rate is 56.93 percent of the wholesale cost.

[4/]Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, certain health insurance, and nonadmitted insurance.

[5/]For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

[6/]As part of SB 1 implemented beginning November 1, 2017, the rate was increased from 29.7 cents to 47.3 cents and indexed for inflation beginning in 2020-21. The fund is used for administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors.

[7/]As part of SB 1, the rate was increased from 16 cents to 36 cents and indexed with inflation beginning in 2020-21.

[8/]For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs. A $10 increase was effective April 1, 2017.

[9/]Proposition 30 was passed by the California voters in November 2012. Proposition 30, for tax years 2012 through 2018, created three new income tax brackets with rates of 10.3 percent for taxable income over $250,000, 11.3 percent for taxable income over $300,000, and 12.3 percent for taxable income over $500,000. Proposition 55 was passed by the California voters in November 2016 and extended these new income tax brackets until 2030.

[10/]The 7.25-percent rate includes the rates for General Fund, Special Funds, and uniform local rates. Additionally, cities and counties may generally assess up to an additional 2.00 percent to the statewide rate.

The significant increase in transfers, particularly the expanded unemployment compensation, has been a primary support for the economy and likely held off a more pronounced downturn. However, the Governor's Budget forecast assumes that support for the unemployed would end early in 2021. The Budget forecast did not assume any additional federal stimulus support, or continued support for unemployed persons beyond what was in place at the end of November.

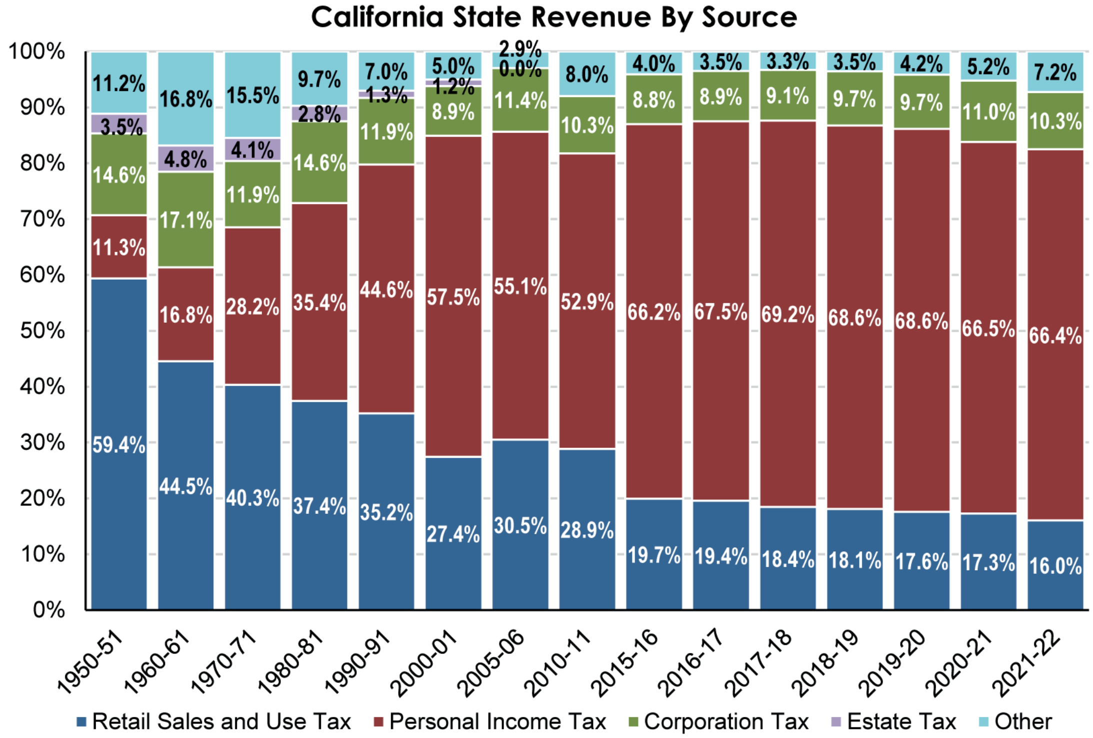
It was expected that this loss of compensation will cause a slowdown in economic growth. The slowdown should not be a significant drag on the income of high-income households. however, and thus will only have a slight dampening impact on revenue. However, if the impact of the slowdown spreads to higher-income individuals or the stock market, then the impact on revenues could be significant. This is a major risk for the revenue forecast. While the enactment of the recent federal COVID-19 relief bill includes extended unemployment compensation will provide a direct support to the economy as a whole in 2021, it may not have a significant impact on revenue since the forecast already assumes that high income personal income taxpayers will be largely insulated from the downturn.

GENERAL FUND REVENUE

The California State Revenue by Source figure shows how the breakdown of General Fund revenues by tax source has changed over time. In 1950-51, sales tax revenue made up over 50 percent of General Fund revenues while personal income tax revenue made up just more than 11 percent. That relationship has changed dramatically over time, and, for 2021-22, personal income tax makes up 66.4 percent of all General Fund revenues.

LONG-TERM FORECAST

The Long-Term Revenue Forecast figure shows the forecast for the three largest General Fund revenues (personal income tax, sales tax, and corporation tax) from 2019-20 through 2024-25. Total General Fund revenue from these sources is expected to grow from $139 billion in 2019-20 to $155.8 billion in 2024-25. The average year-over-year growth rate for this period is 1.9 percent. Although this average growth rate is significantly better than what was forecast for the 2020 Budget Act, it is far lower than the average growth rate since the 2009-10 fiscal year of 6.4 percent.



Long-Term Revenue Forecast - Three Largest Sources

(General Fund Revenue - Dollars in Billions)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average Year-Over-Year Growth
Personal Income Tax	$99.5	$102.2	$107.4	$108.4	$109.3	$112.4	2.1%
Sales and Use Tax	25.5	26.5	25.9	26.7	27.4	28.2	1.3%
Corporation Tax	14.0	16.9	16.6	15.8	14.9	15.2	1.6%
Total	**$139.0**	**$145.7**	**$149.9**	**$150.9**	**$151.6**	**$155.8**	1.9%

Note: Numbers may not add due to rounding.

The economic forecast reflects economic growth after 2020 with real GDP growth averaging 2.8 percent through 2024. These forecasts will be revised at the May Revision to account for the effects of the late December federal COVID-19 relief bill.

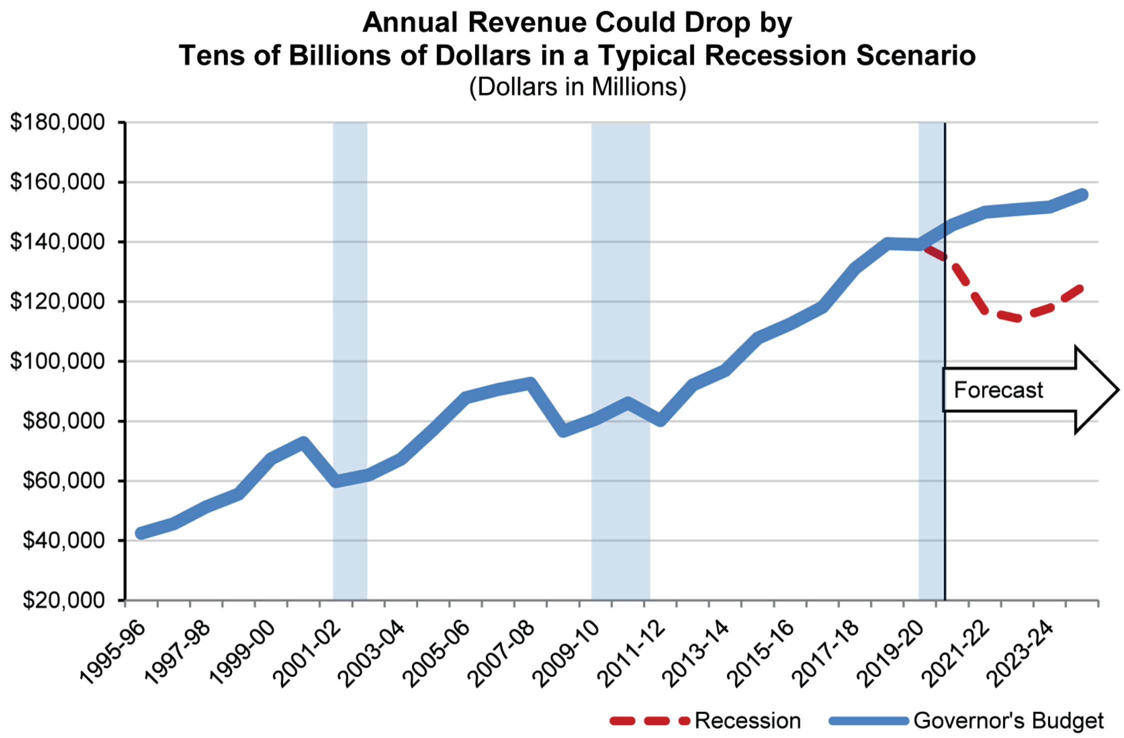
STRESS TEST

The economic recovery is forecast to continue. However the lapsing of COVID-19-related economic support in early 2021 was expected to be a drag on growth, particularly to the prospects of low-income households who have borne the brunt of the pandemic. A main risk to California revenues is a spreading of the economic effects of the COVID-19 Pandemic to high-income households, who have largely been shielded and which have kept personal income tax revenues high. A fall in the stock market, more widespread unemployment, or a sharp rise in bankruptcy filings could all shift more of the burden of the COVID-19 Pandemic to high-income households and ripple through to declines in revenue. In addition, climate change and extreme weather events pose risks to both economic and revenue growth. The recently enacted federal COVID-19 relief bill reduces the likelihood of a continued recession or the slowdown that is built into the underlying economic forecast. It is not likely that this bill will cause revenues to increase significantly relative to the baseline forecast. However, the revenue forecast will be updated for the May Revision when the impact of the relief bill is more apparent.

If the economy slows down more than expected in the first quarter of 2021, revenue declines could be significant. The Recession Scenario Revenue figure shows a history of California's three largest revenue sources—personal income tax, sales tax, and corporation tax—along with revenue projections for the budget forecast and for a scenario that assumes a continuation and expansion of the recession through the end of 2021. Under this scenario, revenue losses result from a decline in wages of about 10 percent compared to the forecast (about $7 billion in revenue) and by a significant drop in capital gains realizations due to a 45-percent stock market correction. The shaded areas in this figure reflect the timing of the 2001 recession, the 2008-09 recession, and the current recession combined with the extended recession scenario. While the actual revenue declines in the past two recessions were significant (as shown in this figure), tax law changes temporarily increased revenues to lessen the declines. Revenue losses in this recession forecast would total over $100 billion (an average of over $30 billion per year) for three years, continue with more years of revenue declines in the range of $30 billion, and lead to a permanently lower revenue base compared to the current forecast.

TAX PROPOSALS

The Budget includes several proposals intended to encourage economic recovery, support for those most hurt by the current economic situation, and incentives for progress in achieving California's climate goals. Many of these proposals—a temporary increase in CalCompetes credits, a one-time expansion of the California Alternative Energy and Transportation Financing Authority sales tax exclusion, and a temporary deferral of property tax reassessment for zero-emission vehicle charging stations—are discussed in more detail in other chapters (Equitable and Broad-Based Economic Recovery Chapter and Climate Change Chapter).



This discussion will focus on the two remaining proposals.

GOLDEN STATE STIMULUS

The Golden State Stimulus is intended to provide immediate cash support to families most likely to have suffered economically from the COVID-19 Pandemic. Regardless of income, all Californians pay a variety of taxes, including on the purchase of taxable goods. This proposal would refund $600 of those taxes to all 2019 taxpayers who received a California Earned Income Tax Credit (Cal EITC) in 2020 as well as to 2020 taxpayers with individual tax identification numbers (ITINs) who receive a Cal EITC in 2021. Focusing on EITC recipients allows for a timely identification and location of the population that likely started 2020 with few resources. Lower-wage workers also disproportionately lost their jobs during the pandemic. The payments would be sent in February and March of 2021. ITIN taxpayers would receive the additional tax refund after they file their 2020 tax return, typically in February through April of 2021. The timing of these refunds is meant to help low-income households facing the end of the eviction moratorium. This tax refund is expected to cost $2.4 billion in 2020-21.

ELECTIVE S-CORPORATION TAX

The Elective S-corporation Tax is an additional 13.3 percent rate on taxable income on top of the regular 1.5 percent. As corporations, S-corporations are allowed to deduct that tax from their taxable income for federal and state tax purposes. Shareholders pay personal income taxes on S-corporation income, at a rate of up to 13.3 percent. In return for the Elective S-corporation Tax, the S-corporation shareholders are allowed a credit against tax equal to 13.3 percent of their S-corporation income. This tax would help taxpayers recoup some of the tax benefits lost by Californians when the State and Local Tax deduction was limited as part of the 2017 federal Tax Cut and Jobs Act. The Elective S-corporation Tax is expected to on net produce a revenue gain between $0 and $20 million starting in 2021-22.

PERSONAL INCOME TAX

While the personal income tax forecast has been significantly upgraded since the 2020 Budget Act, the compounded annual growth rate is below typical rates seen prior to the COVID-19 Pandemic. For example, from 2012-13 to 2018-19, annual personal income tax revenues grew at a rate above 6 percent, while from 2018-19 to 2021-22 annual growth is only expected to be around 3 percent. The personal income tax is the state's largest revenue source and is expected to comprise 66.4 percent of all General Fund revenues in 2021-22.

The personal income tax is expected to generate $99.5 billion in 2019-20, $102.2 billion in 2020-21, and $107.4 billion in 2021-22. These figures reflect an increase of $3.9 billion in 2019-20, $24.6 billion in 2020-21 and $29.8 billion in 2021-22, relative to the 2020 Budget Act.

Modeled closely on federal income tax law, California's personal income tax is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is progressive over the income spectrum. Since the 2012 tax year, the marginal rates ranged from 1 percent to 12.3 percent, not including a 1-percent surcharge on taxable income above $1 million for the Mental Health Services Act tax. Proposition 30 created three additional income tax brackets beginning in 2012 with rates of 10.3 percent for taxable income above $500,000, 11.3 percent for taxable income above $600,000, and 12.3 percent for taxable income above $1 million, with the income thresholds indexed for inflation. Proposition 30 held these tax brackets in effect for seven years—tax years 2012 to 2018. Voters approved Proposition 55 in November 2016, extending the three additional tax brackets through tax year 2030.

The largest income source for the personal income tax is wages and salaries. Although the year-over-year growth rate for wages tends to be less volatile than other income sources, wages and salaries include some unpredictable types of compensation such as stock grants, restricted stock units, stock options, and bonus payments. In 2018, taxes attributable to wages and salaries accounted for nearly 58 percent of personal income tax revenues.

A higher forecast for economic wages, combined with wage growth accruing disproportionately to higher-income earners that are taxed at higher rates, is expected to increase withholding receipts by about $24 billion over fiscal years 2020-21 and 2021-22. Economic wage growth was revised higher in 2020 from -12.8 to -1.5 percent. However, based on the strong tax withholding that occurred in 2020 in spite of the drop in economic wages, the wage declines are likely being felt largely by low-income households, while high-income households are either unaffected, or, in some cases, actually seeing wage increases during the COVID-19 Pandemic. Therefore, the 1.5-percent drop in wages masks the fact that many households, particularly those that were already in a precarious economic situation, are facing significant declines in their wages. The expected growth for economic wages is reduced from 3.2 percent to 1.4 percent in 2021. While the forecast for the levels of economic wages and personal income tax withholding receipts has been upgraded significantly, sectors that comprise more low-wage earners such as retail and leisure and hospitality are faring relatively poorly compared to higher-income sectors due to the COVID-19 Pandemic.

This forecast assumes that there will not be a significant change in migration patterns between California and other states, with net outflows appearing to have continued in 2020. International immigration typically brings hundreds of thousands of people to the state, outweighing the losses in domestic migration. However, immigrant visa processing has been largely suspended since the beginning of the pandemic. As a result of the large increase in teleworking brought about by the COVID-19 Pandemic, it is possible that there will be a significant increase in out-migration from California. If the increase occurs, is large enough, and tends to affect mainly high-income households, actual personal income tax revenues may fall significantly below projections.

A portion of personal income tax revenue is deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over $1 million. Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health programs. Revenues of $2.4 billion are estimated for 2019-20. The forecast also projects annual revenues of $2.5 billion for 2020-21 and $2.6 billion for 2021-22. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2019-20 through 2021-22 are shown in the Personal Income Tax Revenue figure.

This forecast reflects a one-time revenue reduction of $2.4 billion in 2020-21 for the provision of low-income tax refunds. The policy changes included in the Budget related to the expansion of the California Competes Tax Credit and the Main Street Small Business Hiring Tax Credit are expected to reduce personal income tax revenues by $9.5 million in 2020-21 and $35.8 million in 2021-22. In addition, the Elective S-corporation Tax and owner credit is expected to reduce personal income tax revenues on an ongoing basis by an unknown amount starting in 2021-22. These reductions will be more than offset by revenue gains at the entity level.

Personal Income Tax Revenue
(Dollars in Thousands)

	2019-20 Preliminary	2020-21 Forecast	2021-22 Forecast
General Fund	$99,509,305	$102,208,381	$107,360,147
Mental Health Services Fund	2,369,653	2,540,417	2,635,717
Total	**$101,878,958**	**$104,748,798**	**$109,995,864**

CAPITAL GAINS

The stock market has grown much more in 2020 than in a typical recession, which benefits mainly higher-income households. Taxes attributable to capital gains made up 16.5 percent of personal income tax revenue in 2018, which is only 4.8 percentage points below the last cyclical peak in 2007 of 21.4 percent. Capital gains realizations in 2020, 2021 and 2022 were revised sharply higher since the 2020 Budget Act forecast from $119 billion to $174 billion in 2020, $70 billion to $185 billion in 2021, and from $84 billion to $177 billion in 2022 based on a stock market forecast that has been revised significantly upward. There are two factors that are likely contributing to the strength of the stock markets. One factor is the Federal Reserve's expansionary monetary policy and the other factor is an increased savings rate for high-income households. The COVID-19 Pandemic has made the consumption of certain services, such as travel and entertainment, difficult. This constrained consumption has likely led to higher savings rates for high-income households. Combined with low interest rates, this is likely to lead to high-income households investing in corporate equities.

The Governor's Budget forecast projects that the S&P 500 will be at 3,589 in the first quarter of 2021, and will contract annually at approximately 0.25 percent. The 2020 Budget Act had forecast the S&P 500 to be at 2,060 in the first quarter of 2021, and to grow at 5.5 percent per year. Capital gains decline from their peak levels in 2021 to reach 4.5 percent of personal income by 2025, the same year reversion to this level was assumed in the Budget Act. Due to the slight declines expected from the stock market due to its current high valuation, year-over-year declines in capital gains realizations are expected for 2022, 2023, 2024 and 2025.

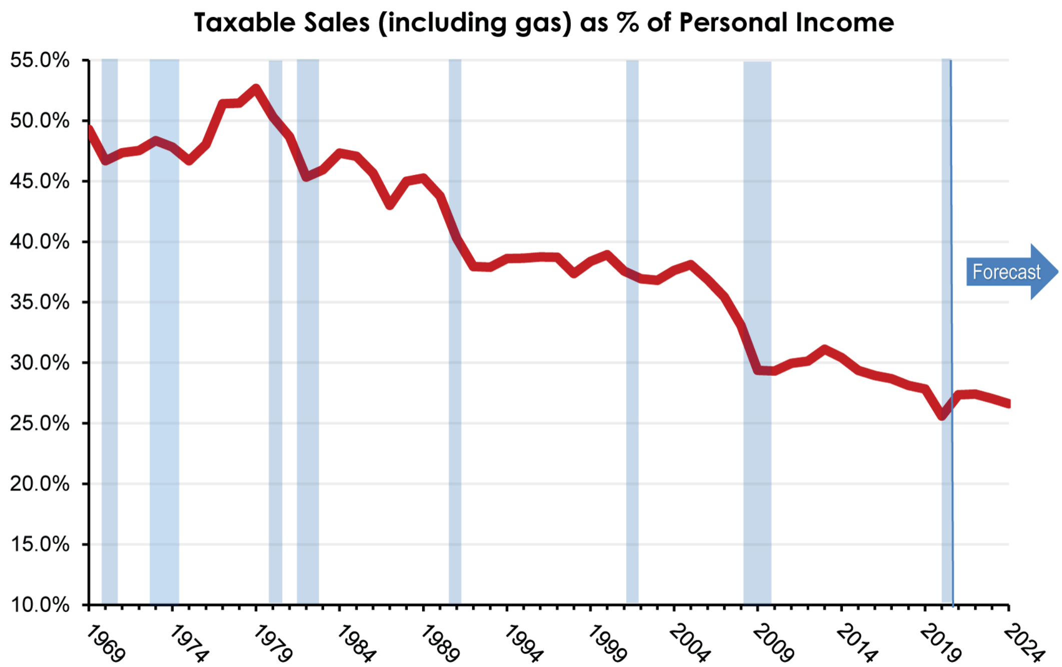
The higher levels and valuations in the stock market and the higher levels of forecasted capital gains increase the risk of a large stock market drop leading to a large decline in capital gains revenues. The forecast for capital gains realization in 2020 and 2021 represent 6.3 percent and 7 percent of California personal income, respectively. These levels are still below but approaching the peaks of 8.4 percent in 2007 and 10.4 percent in 2000. Following those prior peaks, capital gains as a percent of personal income declined to 1.9 percent in 2009 and 2.8 percent in 2002, which represented peak-to-trough declines in capital gains realizations of 78 percent and 72 percent, respectively.

SALES AND USE TAX

The severity of the COVID-19 Pandemic's effect on taxable spending has proven to be far smaller than expected, due in part to a shift in spending from services to goods, which are more likely to have sales tax levied on them than services. The sales and use tax (sales tax) generated General Fund revenue of $25.5 billion in 2019-20 and is expected to generate $26.5 billion in 2020-21 and $25.9 billion in 2021-22. Relative to the 2020 Budget Act, these figures reflect an increase of $555 million in 2019-20, an increase of $5.9 billion in 2020-21, and an increase of $2.3 billion in 2021-22. Receipts from the sales tax, the state's second largest revenue source, are expected to contribute 16 percent of all General Fund revenues in 2021-22.

The sales tax is generally applied to the sale of merchandise, including vehicles, in the state. Sales tax revenues are forecast by relating taxable sales to consumption of taxable goods and business investment. Forecasted levels of sales tax revenue are much higher than those of the 2020 Budget Act, with a significantly more optimistic economic forecast leading to an upgraded forecast for both consumer spending and private investment. The state has benefitted from legislation passed in the wake of *South Dakota vs. Wayfair, Inc.*, which has allowed California to capture taxes on sales that have shifted online due to COVID-19. Preliminary tax return data indicates that online taxable sales more than tripled in the first half of calendar year 2020 when compared to the first half of calendar year 2019. Finally, the forecast continues to reflect the long-term trend of deterioration of the sales tax base. This deterioration is evidenced by taxable sales as a percentage of personal income declining from over

50 percent in the late 1970s to 28 percent in 2019 as shown in the Taxable Sales as a Percentage of Personal Income figure.



The State Sales Tax Revenue figure displays total sales tax revenues for the General Fund and various special funds for 2019-20 through 2021-22.

State Sales Tax Revenue
(Dollars in Thousands)

	2019-20 Actual	2020-21 Forecast	2021-22 Forecast
General Fund	$25,495,445	$26,508,494	$25,924,665
Sales and Use Tax-1991 Realignment	3,584,804	3,768,502	3,736,906
Sales and Use Tax-2011 Realignment	7,050,195	7,427,178	7,276,713
Public Transportation Account	917,430	735,995	763,838
Total	**$37,047,874**	**$38,440,169**	**$37,702,122**

The State and Local Sales Tax Rates figure displays the individual elements of the state and local sales tax rates.

The Combined State and Local Sales and Use Tax Rates by County figure shows combined state and local tax rates for each county, including special rates for certain cities within those counties. The average statewide sales tax rate was 8.56 percent at the beginning of 2020-21.

State and Local Sales and Use Tax Rates (as of January 1, 2021)

State Rates		
General Fund	3.9375%	The permanent rate of 3.94% may be temporarily reduced by 0.25% if General Fund operating reserves exceed specified levels.
Local Revenue Fund 2011	1.0625%	Revenues attributable to a rate of 1.0625 percent are dedicated to the Local Revenue Fund 2011 for realignment.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Local Uniform Rates[1/]		
Bradley-Burns	1.00%	Imposed by city and county ordinance for general purpose use.[2/]
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes by Proposition 172.
Local Add-on Rates[3/]		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments up to a combined maximum of 2.00% in any county.[4/] Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.

[1/] These locally imposed taxes are collected by the state for each county and city and are not included in the state's revenue totals.

[2/] The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

[3/] These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the state for each jurisdiction and are not included in the state's revenue totals.

[4/] Various jurisdictions are authorized in statute to have a higher cap than 2.00%.

Combined State and Local Sales and Use Tax Rates by County
(city rate provided if different from the county rate)
Rates in Effect on October 1, 2020

County	Tax Rate
Alameda	9.25%
Emeryville	9.50%
Alameda, Albany, Hayward, Newark, San Leandro, Union City	9.75%
Alpine	7.25%
Amador	7.75%
Butte	7.25%
Paradise	7.75%
Oroville	8.25%
Calaveras	7.25%
Angel's Camp	7.75%
Colusa	7.25%
Williams	7.75%
Contra Costa	8.25%
Concord, Hercules, Orinda, Pittsburg, Pleasant Hill, San Pablo	8.75%
Antioch, Martinez, Moraga, Pinole, Richmond,	9.25%
El Cerrito	9.75%
Del Norte	7.50%
El Dorado	7.25%
South Lake Tahoe	7.75%
Placerville	8.25%
Fresno	7.975%
Selma	8.475%
Sanger	8.725%
Coalinga, Fowler, Huron, Kerman, Kingsburg	8.975%
Reedley	9.225%
Glenn	7.25%
Orland	7.75%
Humboldt	7.75%
Arcata, Eureka, Fortuna, Trinidad	8.50%
Rio Dell	8.75%
Imperial	7.75%
Calexico, El Centro	8.25%
Inyo	7.75%
Kern	7.25%
Arvin, Bakersfield, Delano, Ridgecrest, Wasco	8.25%
Kings	7.25%
Corcoran	8.25%
Lake	7.25%
Clearlake, Lakeport	8.75%
Lassen	7.25%
Los Angeles	9.50%
Avalon, Commerce, Downey, El Monte, Inglewood, La Puenta, San Fernanado, South El Monte	10.00%
Alhambra, Arcadia, Azusa, Burbank, Compton, Covina, Cudahy, Culver City, Duarte, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Huntington Park, Irwindale La Verne, Lakewood, Lawndale, Long Beach, Lynwood, Monrovia, Montebello, Norwalk, Paramount, Pasadena, Pico Rivera, Pomona, San Gabriel, Santa Monica, Santa Monica, Sierra Madre, South Gate, South Pasadena, Vernon, Whittier	10.25%
Santa Fe Springs	10.50%

County	Tax Rate
Madera	7.75%
Madera	8.25%
Chowchilla	8.75%
Marin	8.25%
Novato	8.50%
San Anselmo, Sausalito	8.75%
Corte Madera, Fairfax, Larkspur, San Rafael	9.00%
Mariposa	7.75%
Mendocino	7.875%
Point Arena, Willits	8.375%
Fort Bragg, Ukiah	8.875%
Merced	7.75%
Atwater, Gustine, Merced	8.25%
Los Banos	8.75%
Modoc	7.25%
Mono	7.25%
Mammoth Lakes	7.75%
Monterey	7.75%
Gonzales	8.25%
King City, Pacific Grove, Sand City, Soledad	8.75%
Carmel-by-the-Sea	9.25%
Del Rey Oaks, Marina, Monterey, Salinas, Seaside	
Greenfield	9.50%
Napa	7.75%
St. Helena	8.25%
Nevada	7.50%
Truckee	8.25%
Nevada City	8.375%
Grass Valley	8.50%
Orange	7.75%
La Habra	8.25%
Fountain Valley, Garden Grove, La Palma, Placentia, Seal Beach, Stanton, Westminster	8.75%
Santa Ana	9.25%
Placer	7.25%
Loomis	7.50%
Roseville	7.75%
Plumas	7.25%
Riverside	7.75%
Blythe, Cathedral City, Coachella, Coachella, Hemet, Indio, La Quinta, Menifee, Murrieta, Norco, Riverside, Temecula, Wildomar	8.75%
Palm Springs	9.25%
Sacramento	7.75%
Galt, Rancho Cordova	8.25%
Isleton, Sacramento	8.75%
San Benito	8.25%
San Juan Bautista	9.00%
Hollister	9.25%
San Bernardino	7.75%
Montclair, San Bernardino	8.00%
Barstow, Yucca Valley	8.75%
San Diego	7.75%
El Cajon, Oceanside, Vista	8.25%
La Mesa	8.50%
Chula Vista, Del Mar, National City	8.75%
San Francisco	8.50%

County	Tax Rate
San Joaquin	7.75%
Lodi, Manteca, Tracy	8.25%
Lathrop	8.75%
Stockton	9.00%
San Luis Obispo	7.25%
Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, San Luis Obispo	7.75%
San Mateo	9.25%
Burlingame, San Mateo,	9.50%
Belmont, East Palo Alto, Redwood City, San Bruno, South San Francisco	9.75%
Santa Barbara	7.75%
Guadalupe	8.00%
Lompoc, Santa Barbara, Santa Maria	8.75%
Carpinteria	9.00%
Santa Clara	9.00%
Los Gatos	9.125%
Campbell, San Jose	9.25%
Santa Cruz	8.50%
Capitola	9.00%
Watsonville, Santa Cruz	9.25%
Scotts Valley	9.75%
Shasta	7.25%
Anderson	7.75%
Sierra	7.25%
Siskiyou	7.25%
Mount Shasta, Weed	7.50%
Dunsmuir, Yreka	7.75%
Solano	7.375%
Rio Vista, Vacaville	8.125%
Benicia, Fairfield, Suisun City, Vallejo	8.375%
Sonoma	8.25%
Healdsburg, Rohnert Park, Sonoma	8.75%
Santa Rosa, Sebastopol	9.00%
Cotati	9.25%
Stanislaus	7.875%
Ceres, Oakdale	8.375%
Sutter	7.25%
Tehama	7.25%
Red Bluff	7.50%
Corning	7.75%
Trinity	7.25%
Tulare	7.75%
Tulare	8.25%
Visalia, Dinuba	8.50%
Farmersville, Lindsay, Woodlake	8.75%
Porterville	9.25%
Tuolumne	7.25%
Sonora	7.75%
Ventura	7.25%
Oxnard, Ventura	7.75%
Santa Paula	8.25%
Port Hueneme	8.75%
Yolo	7.25%
Woodland	8.00%
Davis, West Sacramento	8.25%
Yuba	7.25%
Wheatland	7.75%
Marysville	8.25%

Food service sales were the largest contributors to the sales tax base in calendar year 2019, comprising around 12.2 percent of taxable sales. Motor vehicle and parts dealers were the second-largest contributor to the sales tax base in 2019, with 12.1 percent. The third most significant contributor to the sales tax base is wholesale trade, which comprised 11.7 percent of the sales tax base.

Since July 1, 2010, the General Fund portion of the sales tax no longer applies to gasoline. Taxable sales, excluding gasoline, increased by 3.6 percent in 2018-19. Based on preliminary data, estimates of taxable sales decreased by 2.2 percent in 2019-20. Taxable sales are expected to increase by 5.4 percent in 2020-21 and decrease by 2 percent in 2021-22.

A General Fund sales tax exemption for manufacturing equipment commenced July 1, 2014. The sales tax exemption applies to purchases of manufacturing or biotechnology research and development equipment valued at up to $200 million in qualifying purchases per business per year. The exemption was expanded beginning in 2018 to include manufacturing equipment used in electric power generation and agricultural processing. The revenue loss from the utilization of this exemption was $281 million in 2019-20, and is forecast to be $291 million in both 2020-21 and 2021-22.

The U.S. Supreme Court's ruling in *South Dakota v. Wayfair, Inc.* in June 2018 clarified states' authority to require out-of-state sellers to collect use tax. Previously, California individuals were responsible for reporting and paying use tax on out-of-state purchases. The California Department of Tax and Fee Administration required out-of-state retailers to collect and remit use tax beginning on April 1, 2019 if in the preceding or current calendar year their sales into California exceed $100,000 or 200 or more separate on-line transactions. Additionally, California passed the Marketplace Facilitator Act, Chapter 5, Statutes of 2019, which raised the sales threshold to $500,000, eliminated the 200-transaction test, and mandated that online marketplace operators, as defined, collect and remit sales tax for all sales made on their platforms beginning October 1, 2019. These policies helped capture much of the shift to online transactions in the COVID-19 Pandemic.

The expansion of the Main Street Small Business Tax Credit and the one-time expanded allocation for the California Alternative Energy and Advanced Transportation Financing Authority sales and use tax exclusion program are together expected to reduce General Fund sales tax revenues by $19 million in 2020-21 and $67 million in 2021-22. See the Equitable and Broad-Based Recovery Chapter for more information.

Corporation Tax

The upgrade to the corporation tax revenue forecast is due to an improved forecast for C-corporation profits as large businesses that pay the significant majority of the state corporate taxes have in large part been able to adapt to the COVID-19 Pandemic. However, corporate profits are still expected to decline by 5 percent in 2020-21 and grow only 2 percent in 2021-22, which is below normal growth rates that are in line with nominal GDP that is typically around 4 to 5 percent. The forecast for S-corporation profits, which are taxed at 1.5 percent at the business entity level, was also upgraded since the 2020 Budget Act. S-corporation profits are forecast to decline by 10.1 percent in 2020-21 and then grow by 1.6 percent in 2021-22, well below normal growth rates that would be in line with nominal GDP.

The corporation tax is expected to generate $14 billion in 2019-20, $16.9 billion in 2020-21, and $16.6 billion in 2021-22. These figures reflect increases of $165 million in 2019-20, $414 million in 2020-21, and $737 million in 2021-22 above 2020 Budget Act projections. Corporation tax revenues are expected to contribute 10.3 percent of all General Fund revenues in 2021-22, down more than 4 percentage points from the 14.6 percent contributed in 1980-81.

The temporary business tax credit limitation and temporary suspension of net operating loss provisions that were adopted in the 2020 Budget Act are expected to increase corporate tax revenue by $3.7 billion in 2020-21 and by $3.3 billion in 2021-22. These estimates were downgraded from the 2020 Budget Act by $475 million in 2020-21 and upgraded by $190 million in 2021-22. The revenue estimate related to these provisions is highly uncertain and represents a significant risk to the corporate tax revenue forecast.

The policy changes included in the Budget related to the expansion of the California Competes Tax Credit and the Main Street Small Business Hiring Tax Credit are expected to reduce corporate tax revenues by $9.5 million in 2020-21 and $40.8 million in 2021-22. In addition there will be additional, ongoing, and unknown revenue gains from the Elective S-corporation Tax as well as revenue losses beyond the budget year related to the $500 million increase in the budget year allocation of low-income housing tax credits.

Insurance Tax

Most insurance policies written in California are subject to a 2.35-percent gross premiums tax. This tax takes the place of all other state and local taxes on insurance companies except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less returned premiums. The insurance tax is expected to generate General Fund revenues of $3.3 billion in 2020-21 and $3.3 billion in 2021-22. These figures reflect an increase of $267 million in 2020-21 and $231 million in 2021-22 above 2020 Budget Act projections.

ALCOHOLIC BEVERAGE TAXES

In addition to the sales tax paid by retail purchasers, California levies an excise tax on distributors of beer, wine, and distilled spirits. The tax rates per gallon are applied as follows: (1) $0.20 for beer, dry wine, and sweet wine; (2) $0.30 for sparkling wine; and (3) $3.30 for distilled spirits.

Alcoholic beverage revenue estimates for each type of beverage are based on projections of total per capita consumption and population growth. Overall, consumption growth of alcoholic beverages is expected to be flat in 2020-21 and 0.4 percent in 2021-22. Revenues from this tax were $383 million in 2019-20 and are forecast to be $385 million in 2020-21 and $389 million in 2021-22.

CANNABIS EXCISE TAXES

Proposition 64, commonly referred to as the Adult Use of Marijuana Act, levies excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018. The cultivation tax is paid on all recreational and medicinal cultivation of cannabis, and was increased, to adjust for inflation, to $9.65 per ounce of flower, $2.87 per ounce of trim, and $1.35 per ounce of fresh cannabis plant on January 1, 2020. The increase scheduled for 2021 was paused in order to provide tax relief to the cannabis industry. In addition, there is a 15-percent tax on the retail price of cannabis. Cannabis excise taxes generated $491 million in 2019-20 and are expected to generate $544 million in 2020-21 and $658 million in 2021-22.

CIGARETTE TAX

The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56), passed by the voters in November 2016, increased the excise tax rate on cigarettes, tobacco products, and electronic cigarettes. The excise tax increased by $2 from 87 cents to $2.87 per pack of 20 cigarettes on distributors selling cigarettes in California, effective April 1, 2017. The equivalent excise tax on the distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff also increased by $2 from a $1.37-equivalent to a $3.37-equivalent tax, effective July 1, 2017. Lastly, Proposition 56 newly imposes the $3.37-equivalent tobacco products tax on electronic cigarettes. The $1.37-equivalent portion of that tax was imposed beginning April 1, 2017, while the additional $2-equivalent tax was imposed beginning July 1, 2017. The ad valorem excise tax rate on other tobacco products is calculated annually by the California Department of Tax and Fee Administration based on the wholesale price of cigarettes and the excise tax on cigarettes. Chapter 34, Statutes of 2020 (SB 793) was enacted on August 28, 2020, and will ban all flavored tobacco products, including mentholated cigarettes and flavored e-cigarette liquids, beginning January 1, 2021. However, a referendum was submitted to the California Attorney General to overturn SB 793 and instead allow voters to decide on the flavor ban in the November 2022 statewide election. The California Secretary of State has until January 21, 2021 to verify signatures on the referendum. If the referendum is certified for the November 2022 election, then the flavor ban will be suspended until that time. Current cigarette and tobacco revenue estimates assume that the referendum does not have sufficient signatures and the flavor ban goes into effect on January 1, 2021.

Revenues from the tax on cigarettes and other tobacco products are distributed as follows:

- Ten cents of the per-pack tax is allocated to the General Fund.
- Fifty cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution according to the provisions of Proposition 10 of 1998.
- Twenty-five cents of the per-pack tax, and a rate equivalent to 87 cents levied on non-cigarette tobacco products and electronic cigarettes, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Two cents of the per-pack tax is deposited into the Breast Cancer Fund.
- As of April 1, 2017, two dollars of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products and electronic cigarettes, goes to the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund for distribution according to the provisions of Proposition 56 of 2016.

Projections of cigarette tax revenues are based on projected per-capita consumption of cigarettes, population growth, and the impact from the higher smoking age as well as the increased prices due to Proposition 56. Revenue estimates for other tobacco products, which now include electronic cigarettes, also reflect recent law changes. The cumulative effect of product price and tax increases, the increasingly restrictive environments for smokers, and anti-smoking campaigns (including state campaigns funded by Proposition 99 Tobacco Tax and Health Protection Act revenues and revenues from the Master Tobacco Settlement) have reduced cigarette consumption considerably.

Annual per-capita consumption (based on population ages 18-64) was 184 packs in 1980-81, 123 packs in 1989-90, 84 packs in 1997-98, and 24 packs in 2019-20. Total tax-paid packs of cigarettes sold in 2019-20 were 597 million. In 2020-21, tax-paid packs of cigarettes sold are forecast to decline to 572 million.

The Tobacco Tax Revenue figure shows the distribution of tobacco tax revenues to the General Fund and various special funds for 2019-20 through 2021-22.

Tobacco Tax Revenue

(Dollars in Millions)

	2019-20 Actual	2020-21 Forecast	2021-22 Forecast
General Fund	$60.2	$54.7	$46.4
Cigarette and Tobacco Products Surtax Fund	$215.7	$202.4	$174.1
Breast Cancer Fund	$11.9	$10.9	$9.3
California Children and Families First Trust Fund	$327.5	$318.1	$309.4
California Healthcare, Research and Prevention Tobacco Tax Act of 2016	$1,342.5	$1,249.8	$1,063.0
Total	**$1,957.8**	**$1,835.9**	**$1,602.1**

OTHER REVENUES

UNCLAIMED PROPERTY

The Budget reflects receipts in unclaimed property of $437 million in 2020-21 and $452 million in 2021-22. These numbers reflect ongoing efforts to maintain compliance of holders of unclaimed property with Unclaimed Property Law.

PROPERTY TAXES

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools generally offset General Fund expenditures.

The Governor issued an executive order that waived penalties for property taxes paid after April 10, 2020 for taxpayers who demonstrate they have experienced financial hardship due to the COVID-19 Pandemic through May 6, 2021. Preliminary data for the secured property tax roll indicates that property tax collections increased 5.5 percent in 2019-20, which is modestly below the average growth of the prior five years of 6.2 percent but still in line with historical norms.

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of existing single-family homes was just under $600,000 in 2019, and hit new record highs above $700,000 for the state as a whole. It is expected to rise by 10 percent in 2020, with activity in the 2020 calendar year driving 2021-22 assessed valuations for property tax purposes. This represents an acceleration in growth from 2015 to 2019 when median prices increased at an average rate of 5.7 percent. However, despite strong median price growth in residential single-family homes, the forecast for housing permits is expected to be weak in 2020 and decline 10.3 percent compared to the prior year, with particular weakness in multi-family units. While residential real estate turnover slowed down considerably due to the COVID-19 Pandemic in March through May 2020, turnover rebounded strongly and has been above pre-pandemic levels beginning July 2020.

Statewide property tax revenues are estimated to increase 4.6 percent in 2020-21 and 5.6 percent in 2021-22, up from 3.5 percent in 2020-21 and 5.5 percent in 2021-22 at the 2020 Budget Act, due in large part to the assumption of a lower rate of delinquencies. Approximately 48 percent ($47 billion) of 2021-22 property tax revenues will go to K-14 schools. This includes $2.6 billion that schools are expected to receive in 2021-22 pursuant to the dissolution of redevelopment agencies.

SPECIAL FUND REVENUE

The California Constitution and state statutes specify into which funds certain revenues must be deposited and how they are to be spent.

Total special fund revenues, excluding transfers, are estimated to be $58 billion in 2021-22. Taxes and fees related to motor vehicles are expected to comprise 32.3 percent of all special fund revenue in 2021-22. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2021-22, it is expected that about $18.7 billion in revenues will be derived from the ownership or operation of motor vehicles.

MOTOR VEHICLE FEES

Motor vehicle fees and taxes consist of vehicle license, registration, weight, drivers license, and other charges related to vehicle operation. The Motor Vehicle Fees Special Fund Revenue figure displays revenue from these sources from 2019-20 through 2021-22.

Motor Vehicle Fees Special Fund Revenue
(Dollars in Thousands)

	2019-20 Actual	2020-21 Forecast	2021-22 Forecast
Vehicle License Fees	$2,806,823	$2,995,688	$2,943,423
Registration, Weight, and Other Fees	5,178,671	5,455,120	5,559,683
Transportation Improvement Fee	1,737,699	1,833,000	1,909,000
Total	**$9,723,193**	**$10,283,808**	**$10,412,106**

The Vehicle License Fee (VLF) is imposed on vehicles registered in California that travel on public highways. The current VLF tax rate is 0.65 percent plus a graduated fee at $25 to $175 per vehicle. These taxes are imposed in lieu of a local personal property tax on automobiles and are administered by the Department of Motor Vehicles. The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF collected. The total number of vehicles in California—automobiles, trucks, trailers, and motorcycles, including vehicles registered in multiple states—is estimated to be 32.7 million in 2020-21 and 33.2 million in 2021-22. New vehicles registered in 2019-20 decreased 14.6 percent from the prior year as vehicle sales dropped significantly beginning in March due to the COVID-19 Pandemic. The forecast projects that vehicle sales will rebound and that there will be 2.3 million new vehicles registered in 2020-21 and 2.2 million new registered vehicles in 2021-22; however, these levels are still modestly below the 2.3 to 2.4 million new vehicle registrations seen in the prior five years from 2014-15 to 2018-19.

Beginning April 1, 2017, the base vehicle registration fee of $43 increased by $10 and was newly indexed to inflation. The total vehicle registration fee is expected to be $92 in 2021, which includes $61 for the base vehicle registration fee, $28 for a CHP fee that continues to be indexed to inflation, and $3 for an alternative fuel/technology fee not indexed for inflation.

In addition to the VLF, truck owners pay a fee based on vehicle weight. Weight fee revenues are expected to be $1.2 billion in both 2020-21 and 2021-22.

Beginning July 1, 2020, an additional $100 annual registration fee was imposed on zero-emission vehicles (ZEV) that are model 2020 or newer. The new ZEV revenue is expected to be $7 million in 2020-21 and $14.7 million in 2021-22, and will be used to fund transportation projects.

MOTOR VEHICLE FUEL TAXES

The motor vehicle fuel tax (gas tax), diesel fuel tax, and use fuel tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Over one-third of these revenues are apportioned to local jurisdictions for a broad range of local road projects, including both maintenance of existing roads and construction of new roads. In addition, some jurisdictions choose to spend a portion of their allocation on improvements to the state highway system in their region to decrease traffic congestion. Motor vehicle fuel tax collections are shown in the Motor Vehicle Fuel Tax Revenue figure.

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
Gasoline[1/]	$6,544,213	$6,782,059	$7,340,699
Diesel	1,253,450	1,240,765	1,298,013
Total	**$7,797,663**	**$8,022,824**	**$8,638,712**

[1/]Does not include jet fuel.

Gasoline consumption was down 8.4 percent in 2019-20 compared to the prior fiscal year. Demand for gasoline was significantly reduced in the second half of the fiscal year by stay-at-home orders related to the COVID-19 Pandemic. Gasoline consumption is expected to continue its pandemic-related decline, decreasing by 3.8 percent in 2020-21 before recovering 5 percent in 2021-22. In the long run, continued gains in the average fuel economy of cars and trucks combined with the state's policies to reduce greenhouse gas emissions are expected to support long-term declines in gasoline consumption.

Diesel consumption increased by 3.7 percent in 2019-20 as the strength in months leading up to the COVID-19 Pandemic in March more than offset pandemic-related weakness in the last part of the fiscal year. Because most diesel fuel is consumed by the commercial trucking industry, consumption is generally affected most significantly by general economic conditions. Therefore, because of the economic disruption resulting from the pandemic, diesel consumption is expected to decline by 4.9 percent in 2020-21, followed by a rebound of 2 percent in 2021-22. Long-term growth is expected to be negative 0.4 percent per year, reflecting a moderating economy and gradually improving fuel economy of the fleet.

The gas tax is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel is taxed at a rate of 50.5 cents per gallon in 2020-21 and will be taxed at the rate of 52 cents per gallon in 2021-22.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. The excise tax on diesel will be 38.5 cents per gallon for 2020-21 and will be 39.6 cents per gallon in 2021-22. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.