

# Revenue Limit Overview

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LEGISLATIVE ANALYST'S OFFICE

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Assembly Budget Committee

Subcommittee No. 2 on Education Finance





## Cost-of-Living Adjustment (COLA) Rate Estimate Increases

- The Governor's budget includes \$2.3 billion for a 5.2 percent COLA.
- Based on updated data, we estimate the 2006-07 K-12 COLA will be significantly higher—5.8 percent instead of 5.2 percent. This would lead to around \$300 million in additional costs.
- Compensation accounts for around 80 percent to 90 percent of school operating expenditures but only around 57 percent of the K-12 COLA rate.
- COLA rate may be higher than schools' actual costs of inflation in 2006-07, but was likely lower in prior years.

### Rates for K-12 Cost-of-Living Adjustment (COLA) And COLA Factors

*2002-03 Through 2006-07*

	2002-03	2003-04	2004-05	2005-06	2006-07 Estimate <sup>a</sup>
<b>K-12 COLA</b>	2.0%	1.9%	2.4%	4.2%	5.8%
<b>K-12 COLA Factors</b>					
Nondurable Goods—including oil and gas	-3.5%	3.6%	4.5%	12.1%	14.0%
Gross Investment—including construction	1.9	1.9	1.3	3.7	5.8
General Government Employee Compensation	4.1	4.6	4.4	3.6	3.8

<sup>a</sup> Projected based on three quarters of 2005 data and estimates for first quarter of 2006.



## Increase Funding For Declining Enrollment Adjustment

State K-12 Attendance Growth and The Declining Enrollment Adjustment						
	2001-02	2002-03	2003-04	2004-05	Revised 2005-06	Proposed 2006-07
Statewide growth rate	2.1%	1.7%	0.9%	0.4%	0.5%	0.2%
Districts receiving adjustment	327	375	412	438	__a	__a
"Phantom" ADA <sup>b</sup> funded <sup>c</sup>	16,000	20,000	29,000	49,000	49,000	49,000
<b>Cost of declining enrollment (in millions)</b>	<b>\$74</b>	<b>\$93</b>	<b>\$137</b>	<b>\$242</b>	<b>\$255</b>	<b>\$268</b>
<sup>a</sup> Unknown. <sup>b</sup> Average daily attendance. <sup>c</sup> Difference between level at which districts are funded (based on prior year) and the number of students they are actually serving.						

- Decline in statewide ADA growth from 0.5 percent to 0.2 percent indicates that both the *number* of districts experiencing declining enrollment and the *size* of the attendance decline will be greater than in 2004-05 and 2005-06.
- We estimate additional cost of **\$75 million** for a total of \$343 million.
- If the Legislature wishes to provide additional support for districts facing declining enrollment, we recommend doing so through a fiscal solvency block grant.



## Including Revenue Limit Add-On Programs In Equalization Formula Would Lead to More Uniform Funding Levels

Variance in Revenue Limit Add-On Programs Large Unified School Districts				
2004-05 (Dollars Per Average Daily Attendance)				
Program	Description	Amount		
		Highest	Average	Lowest
<b>Base Revenue Limit</b>	Pay for the basic costs of educating a student.	\$6,789	\$4,797	\$4,657
<b>Add-On Programs</b>				
Meals for Needy Pupils	Replace property tax revenues approved by voters prior to Proposition 13.	\$608	\$24	\$0
SB 813 Incentive Programs	Increase the length of the school day and school year, increase minimum teacher salaries.	402	227	176
Unemployment Insurance (UI)	District UI costs in excess of 1975-76 UI costs.	50	28	4
PERS <sup>a</sup> Reduction	Reduce district funding based on the current district contribution for PERS employees.	0	-23	-67
<sup>a</sup> Public Employees' Retirement System.				