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FISCAL REPORT

Gann Limit Calculation Due Soon

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The Gann Limit (named for Paul Gann, the author of Proposition 4 which amended the State Constitution to establish this limit) is intended to constrain the growth in state and local government spending by linking year-to-year changes in expenditures to changes in inflation (represented by per capita personal income) and population (represented by average daily attendance [ADA] for schools).

Established in 1979, following the enactment of Proposition 13 and subsequently amended by Proposition 111, the Gann Limit has become a largely pro forma calculation that no longer constrains governmental expenditures, as the limit has grown significantly faster than the appropriations to which it is subject.

Education Code Section 42132 requires that on or before September 15 of each year, the governing board of each school district adopt a resolution to identify the estimated appropriations limit for the current fiscal year and the actual appropriations limit for the preceding fiscal year. The resolution must be adopted at a regular or special meeting of the governing board.

Before we get into the details of the calculation itself, let's take a moment to paint a mental picture of how the Gann Limit works. Envision the dollar amount of your district's Gann Limit as a bucket that can hold $50 million (the calculated Gann Limit). First, fill the bucket with your local property taxes that count toward your Local Control Funding Formula entitlement, including the appropriate district interest income. Next, pour in all of the district's other unrestricted state aid. Per Government Code Section (GC §) 7906, the amount of state aid that fills up the bucket counts toward your district's Gann Limit, while the amount that overflows the bucket counts toward the state's Gann Limit. (Note that all state aid for categorical programs always counts toward the state's Gann Limit.) Through this process, as much state aid as possible counts toward school agency Gann Limits. By reducing the amount of state aid that counts toward the state's Gann Limit in this manner, this process helps the state avoid being over its Gann Limit.

The Gann Limit is calculated by multiplying the prior-year limit by the percentage change in ADA and per capita personal income. Through this calculation, the revenues of nearly every school agency is close to, if not exactly at, its Gann Limit. Furthermore, if any school agency should, for any reason, find itself over its Gann Limit, that agency may adopt a Governing Board resolution increasing its Gann Limit by the amount needed and inform the Director of the Department of Finance within 45 days, who will then need to reduce the state's Gann Limit by an equal dollar amount (see GC § 7902.1).

In order to complete the calculation, there is no need to pull out your calculators, as the state's Standardized Account Code Structure (SACS) software does all of the work for you (see SACS Form GANN). The software includes the statewide factor for per capita personal income change—3.73% for the 2020–21 fiscal year, and once you have uploaded the data from your financial software and entered prior-year and current-year estimated ADA in SACS Form A, the SACS software will calculate the percentage change in ADA for you and use the combination of these factors to provide you with the change in your district's Gann Limit.

The next step is to determine how much of your district's local resources are subject to that limit. It is important to understand that not all revenue sources count against your district's Gann Limit. Gann Limits only constrain the appropriations from state and local tax sources, and so federal aid is excluded, as well as nontaxable income—such as revenues from cafeteria sales, adult education fees, and foundations. Once again, the SACS software does the hard work for you as the Form GANN within the SACS software is prepopulated based on the data imported from your financial software.

To summarize, the State Constitution requires school agencies to perform Gann Limit calculations, but it is also important for them to complete these calculations to identify how much state aid counts toward the school agency's Gann Limit, so that the State of California knows how much state aid counts toward its own Gann Limit.

[Note: Current-year software and instructions are available through the SACS2020ALL Software as a supplemental form. While the functionality within the SACS software allows for the Form GANN to be prepopulated from the school agency's uploaded data, it is important to review the completed form for accuracy and any necessary board action (i.e., resolution).]