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It's Time to Calculate Your Gann Limit

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Established in 1979 with the passage of Proposition 4, the Gann 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 the average daily attendance [ADA] for schools). While largely pro forma due to historically faster increases in the limits when compared to government expenses, there are new Gann Limit requirements that local educational agencies (LEAs) must comply with this year and in the future.

But let's first start with the basics. Education Code Section (EC §) 1629 and EC § 42132 requires county boards of education and school district governing boards, respectively, to adopt—at a regular or special meeting—a resolution identifying the estimated appropriations limit for the current fiscal year and the actual appropriations limit for the preceding fiscal year. Counties must adopt this resolution by October 15, while school districts must do so by September 15.

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 LEA is close to, if not exactly at its Gann Limit. If, however, an LEA should find itself over its Gann Limit for any reason, that LEA is required to increase its appropriations limit to the amount equal to its proceeds of taxes, which reduces the state's Gann Limit by an equal dollar amount (see Government Code Section 7902.1).

The ability of LEAs to use the state's appropriations limit when its revenues exceed its local Gann Limit has been a longstanding authority, but the inverse—the ability of the state to recoup unused local Gann Limit "room"—has not. Beginning in the 2021–22 fiscal year and each fiscal year thereafter, if an LEA's Gann Limit exceeds its revenue from taxes (both local revenues and state aid), then the LEA must decrease its limit to equal its proceeds of taxes, which increases the state's Gann Limit by an equal dollar amount.

Recent changes also include provisions to retroactively decrease local appropriations limits to equal LEAs' proceeds of taxes for the 2019–20 and 2020–21 fiscal years. For these years, the California Department of Education notified affected LEAs on August 5, 2021, of decreases to their limits along with instructions about how to capture the decrease in the Standardized Account Code Structure (SACS) software. For more information about the changes to local Gann Limit requirements, including frequently asked questions, click here.

The SACS Form Gann has been updated to report and capture any increases or decreases in an LEA's appropriations limit, including for county offices of education. The software includes the statewide factor for per capita personal income change, 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 LEA's Gann Limit.

The next step is to determine how much of your LEA's local resources are subject to that limit. It is important to understand that not all revenue sources count against your LEA's Gann Limit. Gann Limits only constrain the appropriations from state and local tax sources. Consequently, federal aid and nontaxable income—such as revenues from cafeteria sales, adult education fees, and foundations—is excluded. 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.

The SACS software and instructions for the 2021–22 fiscal year is available here.