Gann Limit

Information on the appropriations limit established by Proposition 4 (1979), also known as the Gann limit.

What is the Gann limit?

California Proposition 4 (1979), also known as the Gann limit, was approved by voters with the goal of keeping state and local government spending, including school spending, capped at 1978–79 levels, adjusted for changes in population and inflation. For local educational agencies (LEAs), issues with the limit can occur if revenues from taxes (both local revenues and state aid) increase at a greater rate than average daily attendance (ADA) and inflation, or if there is a drop in ADA. Since 1987, the state and LEA limits essentially have been administered as a combined total. As such, any LEA with more tax revenue than their limit allows may request the state to share some of the state's limit to cover the shortfall in lieu of issuing refunds to taxpayers. Requests for more limit have been automatically approved, and the process for requesting more limit from the state has been incorporated in the Standardized Account Code Structure (SACS) software.

AB 130

Assembly Bill (AB) 130 (Committee on Budget, Chapter 44, Statutes of 2021), the Transitional Kindergarten through Grade 12 budget trailer bill, made some changes to the statutes regarding the Gann limit. If an LEA is at or above its limit, the process stays the same with two exceptions. The first is that LEAs must increase their limit, rather than opt to refund taxes. The second is that LEAs no longer have to submit a letter to the Department of Finance about the increase.

For LEAs that have more limit than they need, the changes in AB 130 require those LEAs to return the extra limit back to the state. For the 2019–20 and 2020–21 fiscal years, the limit is automatically transferred to the state and the Superintendent of Public Instruction must notify affected LEAs of the reduction to their limit. This process is in lieu of requiring LEAs to go back and adopt a resolution to decrease the limit. Beginning in 2021–22, the California Department of Education (CDE) will incorporate the reduction process in the SACS software. LEAs will only need to adopt a resolution adjusting the limit, consistent with LEAs' previous practices pursuant to *Government Code* 7910(a).

On August 5, 2021, the CDE notified LEAs that had additional limit in the 2019–20 fiscal year that their Gann limit had been reduced. The CDE also provided additional instructions about how to reflect the decrease in limit in the SACS software.

Changes Made by AB 130

- Requires the governing board/county superintendent of schools to increase the LEA's appropriations (Gann) limit when the LEA's proceeds of taxes are greater than their adjusted limit (e.g., when local revenues and state aid grow faster than ADA/inflation). The additional limit the LEA needs comes from the state. This was previously optional, but the increase was built into the Form GANN/SACS software. *(Amended Education Code [EC] 7902.1(a))*

- Eliminates a requirement to submit letters to the Department of Finance of a change in Gann limit. *(Removed EC 7902.1(b))*
- Commencing in 2021–22, requires the governing board/county superintendent of schools for LEAs with available limit, where proceeds of taxes are lower than the limit adjusted for changes in ADA and inflation, to decrease their limit and return that extra to the state. *(New EC 7902.1(b))*
- For 2019–20 and 2020–21 only, for any LEAs with proceeds of taxes lower than their adjusted limit (e.g., available limit or room), automatically transfers extra limit to the state. The automatic transfer is in lieu of requiring those LEAs to adopt a resolution decreasing their limit, but the change will need to be recorded on the Form GANN for the upcoming SACS unaudited actual submission. *(New EC 7902.2)*
- Updates the Form GANN to include any increase or decrease in an LEA's appropriations limit. *(Amended EC 7906(f) and New EC 7907(h))*
- Codifies the Form GANN for county offices of education (COEs). *(New EC 7907(h))*

Frequently Asked Questions

What is the appropriations limit?

The appropriations limit calculated under *Government Code* 7902, often referred to as the Gann limit, was established by Proposition 4 in 1979. Simply put, the purpose of the limit is to keep inflation adjusted per-person government spending under 1978–79 levels. For LEAs, ADA is used to determine population.

While the appropriations limit does function as a limit on LEA spending, *Government Code* 7902.1(a) allows LEAs with proceeds of taxes in excess of their appropriation limit (e.g., LEAs who need additional limit) to request additional limit from the State of California. This request is automatically approved.

What has changed with AB 130?

AB 130 (Committee on Budget, Ch. 44, Statutes of 2021) requires LEAs with available limit (proceed of taxes less than the appropriations limit) to transfer any available limit to the State of California. This is the reciprocal of the practice allowed under *Government Code* 7902.1(a).

For LEAs with excess limit in Fiscal Years 2019–20 or 2020–21, the limit is transferred to the State of California automatically by statute (*Government Code* 7902.2), and the Superintendent of Public Instruction must notify any affected LEA. Additional steps are required by affected LEAs to reflect the required transfer in order to update SACS so that an LEA's limit is properly calculated in subsequent years.

Beginning in Fiscal Year 2021–22, LEAs with excess limit must adopt a new appropriations limit that equals their proceeds of taxes, thereby transferring any available limit to the State of California. The required adjustment will be captured in the Form GANN, and then adopted by the governing board of a school district or the county superintendent of schools pursuant to *Government Code* 7910(a).

What does this mean for LEAs?

The reduction in limit does not result in any loss of funding, nor is the requirement to provide taxpayer refunds triggered.

The most significant change is that in future years, some LEAs with reductions may need to increase their limit if tax revenues outpace ADA and inflation.

Additionally, there are some additional steps required when an affected LEA next completes the Form GANN to properly record the transfer of limit has occurred. LEAs are required to file a Form GANN every year.
In Fiscal Year 2019–20, 111 LEAs had their appropriation limit reduced.

If my Gann limit is reduced, do I lose funding?

No. LEAs that have their Gann limit reduced pursuant to *Government Code* 7902.2 do not lose any funding.

What do I need to do?

LEAs with available limit must record the transfer of limit within SACS, on the Form GANN for Fiscal Year 2020–21 in order to avoid carrying forward an incorrect appropriations limit.

School districts must enter the available limit as a negative adjustment on line A.1. FINAL PRIOR YEAR APPRORPIATIONS LIMIT in the 2020–21 Calculations Adjustments column.

COEs must enter the enter the available limit as a negative adjustment on line A.3. TOTAL PRIOR YEAR APPROPRIATIONS LIMIT in the 2020–21 Calculations Adjustments column.

What if my LEA exceeds its appropriation limit in the future?

If an LEA needs additional limit that limit will be transferred from the State of California to the LEA as required by *Government Code* 7902.1(a). LEAs are required to increase their limit by adopting a resolution doing so, which is a long-standing process pursuant to *Government Code* 7910(a).

Other Information

AB 130 Text

Questions: Fiscal Policy Office | Gann@cde.ca.gov

Last Reviewed: Tuesday, August 17, 2021