The COLA Defined

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The cost-of-living adjustment (COLA) is one of the most discussed items in school finance. It's a focal point during the release of annual budget proposals, and over the course of the fiscal year especially as local negotiation considerations are discussed. To ensure consistency across each of the conversations, it's critically important that all parties understand what it means to "receive a COLA."

First, the statutory COLA, as defined in the state of California in Education Code Section 42238.02(d)(2), is a federally derived figure that compares the changes in state and local government consumption expenditures and gross investment aggregated at the national level. More simply put, it measures the increases, or decreases, in the cost of doing business using national governmental activity as a proxy. This can be a point of contention, especially in a high-cost state such as California where the consumer price index, and related cost of living, are considerably higher than the majority of states. The state of California does not calculate funding increases for education based on the cost of living increases specific to California.

Second, the application of the funded COLA does not automatically result in new revenues for local educational agencies (LEAs). The funded COLA, simply stated, increases the funding per unit of measurement. It is not a pot of gold at the end of the rainbow. The largest, and most significant, funding source for most LEAs are the revenues generated through the Local Control Funding Formula. The primary unit that is measured is average daily attendance (ADA), or more commonly referred to as attendance. The application of the current statutory COLA of 6.56% increases the funding per unit of attendance. However, if attendance is down year-over-year, which is pervasive statewide amidst the drastic decline in enrollment, the number of units used to calculate funding may also decline.

Grade Span	2021-22 Base Grant per ADA	6.56% Statutory COLA	2022-23 Base Grant per ADA
TK-3	$8,093	$531	$8,624
4-6	$8,215	$539	$8,754
7-8	$8,458	$555	$9,013
9-12	$9,802	$643	$10,445

Using a simplistic illustrative example, let's assume that a school district had 100 kindergartners in 2021-22, and all 100 kindergartners attended school 100% of the time. In 2022-23, only 95 of those kindergartners progressed into first grade, and the other five moved to another district. The district "received a COLA" of 6.56% in 2022-23—meaning that the funding per ADA increased—but, because the ADA decreased, the revenue growth is less than the COLA. In the example below, the revenue growth is $9,980, or 1.2%.

	2021-22	2022-23
Funding per ADA	$8,093	$8,624
ADA	100	95
Total Funding	$809,300	$819,280

The third, and final, point is that the COLA, or growth in funding per unit, is intended to cover all the costs associated with educating children. This includes, but is not limited to, the cost of staffing, instructional materials, utilities, and supplemental services for children. It's critically important to recognize this component, especially as LEAs grapple with levels of inflation that match a 40-year high. The cost of doing business for the employer and the employee are going up, and it's the new ongoing revenues generated by the funded COLA that are used to cover these costs.

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