

Addendum

Understanding COLA, CPI, and School Funding

What is COLA?

COLA stands for **Cost of Living Adjustment**.

It is the State's annual increase in school funding to help school districts keep up with rising costs caused by inflation.

Just like families experience higher prices for groceries, gas, utilities, and insurance, school districts also experience rising costs to operate schools.

These costs include:

- Employee salaries and benefits
- Electricity and utilities
- Insurance
- Fuel and transportation
- Classroom supplies and materials
- Technology and contracted services

COLA helps school districts maintain the same level of services as costs increase over time.

How Does COLA Work for Schools?

Each year, the State of California determines whether school funding should increase in response to inflation.

If the State approves a COLA, school districts receive an increase in funding through the:

- Local Control Funding Formula (LCFF)
- Certain State-funded programs

For example:

If the base grant is \$10,000 per student (ADA) and the State approves a 3% COLA, the district receives an increase of \$300 more per student.

Note: Total district revenue will ultimately fluctuate based on our final student attendance (ADA) counts.

How Does the State Decide the COLA Amount?

The State uses economic data to estimate how costs are increasing for government agencies, such as school districts.

The main indicator used is called the:

→ **Implicit Price Deflator (IPD) for State and Local Government Purchases**

While the name is technical, it simply means the State looks at how much more expensive it has become for public agencies to operate.

The calculation considers increases in costs such as:

- Salaries and employee benefits
- Health insurance
- Utilities
- Transportation and fuel
- Supplies and materials
- Operational services

The COLA amount is:

1. Proposed in the Governor's January Budget
2. Updated during the May Revision
3. Finalized when the State Budget is adopted

What is CPI?

CPI stands for **Consumer Price Index**.

CPI measures inflation for everyday consumers and households.

It tracks price increases for things like:

- Food
- Gas
- Housing
- Medical care
- Transportation
- Household goods

You often hear CPI discussed in the news when people talk about inflation.

What is the Difference Between COLA and CPI?

Although they are related, COLA and CPI are not the same thing.

COLA	CPI
Helps determine increases to school funding	Measures inflation for consumers
Focuses on school district and government operating costs	Focuses on household and consumer costs
Used in the State budget process	Used to track inflation in the economy
Based on government cost increases	Based on consumer price increases

Simply put:

- CPI measures how much more expensive life becomes for families, while COLA is the State's effort to help schools keep up with rising operating costs.

Important Things to Understand About COLA

→ COLA is NOT “extra” money

COLA is mainly intended to help districts maintain current services as costs rise.

Even when districts receive additional funding, expenses increase as well.

For example:

- Health insurance may increase
- Retirement costs may increase
- Utility costs may rise
- Special education costs may grow
- In some years, district costs increase faster than the State's COLA.

Why COLA Matters

COLA helps school districts:

- Maintain educational programs
- Continue student services
- Keep schools operating effectively
- Respond to inflation and rising costs

When COLA is low or not provided during periods of high inflation, districts may face financial pressure and may need to:

- Reduce spending
- Delay purchases
- Use reserves
- Consider staffing or program reductions

Summary

COLA is the State’s annual adjustment to school funding to help districts keep up with rising costs due to inflation. While CPI measures how inflation affects families and consumers, COLA reflects the State’s effort to help schools manage increasing operational expenses and maintain current services for students.