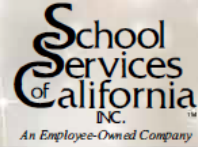


# Happy Holidays from . . .



## FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

### COLA Is What?!

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The month of November ushers in annual certainties-pumpkin spice everything, familial debates about whether turkey or ham is the preferred protein for the Thanksgiving meal, a Thanksgiving Day loss by the Detroit Lions, and the release of the Legislative Analyst's Office (LAO) *Fiscal Outlook*. However, these are abnormal times, and the recent past has been anything but certain even though the pumpkin spice craze continues, familial debates persist, and the Detroit Lions (who are favored to win their Thanksgiving game this year) seem to have turned things around. Perhaps the changing fortune of the Lions- along with the twice-delayed 2022 tax filing deadline-catalyzed the LAO's decision to delay the release of their much-anticipated *Fiscal Outlook* that is normally released this week

Of course, the outcome of a football game has no direct impact on the state's General Fund revenues, but the pending results of the 2022 tax collections have an immense impact on the state's economy and financial trajectory. Specifically, the tax collections (or lack thereof) have the potential to change the state's General Fund revenue estimates used to build the 2023-24 State Budget by tens of billions of dollars. The state estimated that October 2023 tax receipts would exceed \$42 billion due to the extension of the tax filing deadline by six months. The first deferred deadline was extended further by the Internal Revenue Service and Franchise Tax Board (FTB) in an announcement made on October 16, 2023. As of October 27, the FTB reported monthly tax collections of only \$14.9 billion-a shortfall from projections of more than \$27 billion.

This shortfall and the one-month extension of the 2022 tax filing deadline caused the LAO to postpone the publication of its *Fiscal Outlook* to early December as multi-billion dollar discrepancies can have significant impacts on the overall State Budget and Proposition 98.

The *Fiscal Outlook* is ripe with salient information and key data points, not the least of which is likely the most anticipated projection of the 2024-25 statutory cost-of-living adjustment (COLA). In recent years, the LAO's projection of the statutory COLA in the *Fiscal Outlook* has been very close to the estimates released by the Department of Finance (DOF) as part of the January Governor's Budget release. Additional angst around the statutory COLA for 2024-25 is brewing as six of the eight data points have been collected, and the 3.94% statutory COLA projected by the DOF in June 2023 is becoming a dimming hope.

Although the *Fiscal Outlook* is delayed, Kenneth Kapphahn, Principal Fiscal and Policy Analyst at the LAO, presented today, November 16, 2023, at the California School Business Officials CBO Symposium and announced that the LAO is now projecting the 2024-25 statutory COLA to be approximately 1.00%-a significant decrease from the Newsom Administration's June 2023 estimates. We expect that the DOF, which has significantly more data now than in June 2023, will downgrade its projection when Governor Gavin Newsom presents his State Budget proposal on January 10, 2024.

Local educational agencies that are in midst of preparing their First Interim reports to be approved by December 17 should consider multiple scenarios factoring in lowered revenue projections as a result of a significantly reduced statutory COLA. While the final statutory COLA won't be known until April 2024, the likelihood of it being 3.94% appears to be slim to none.