

Inflation findings, recs, bill drafts, and considerations

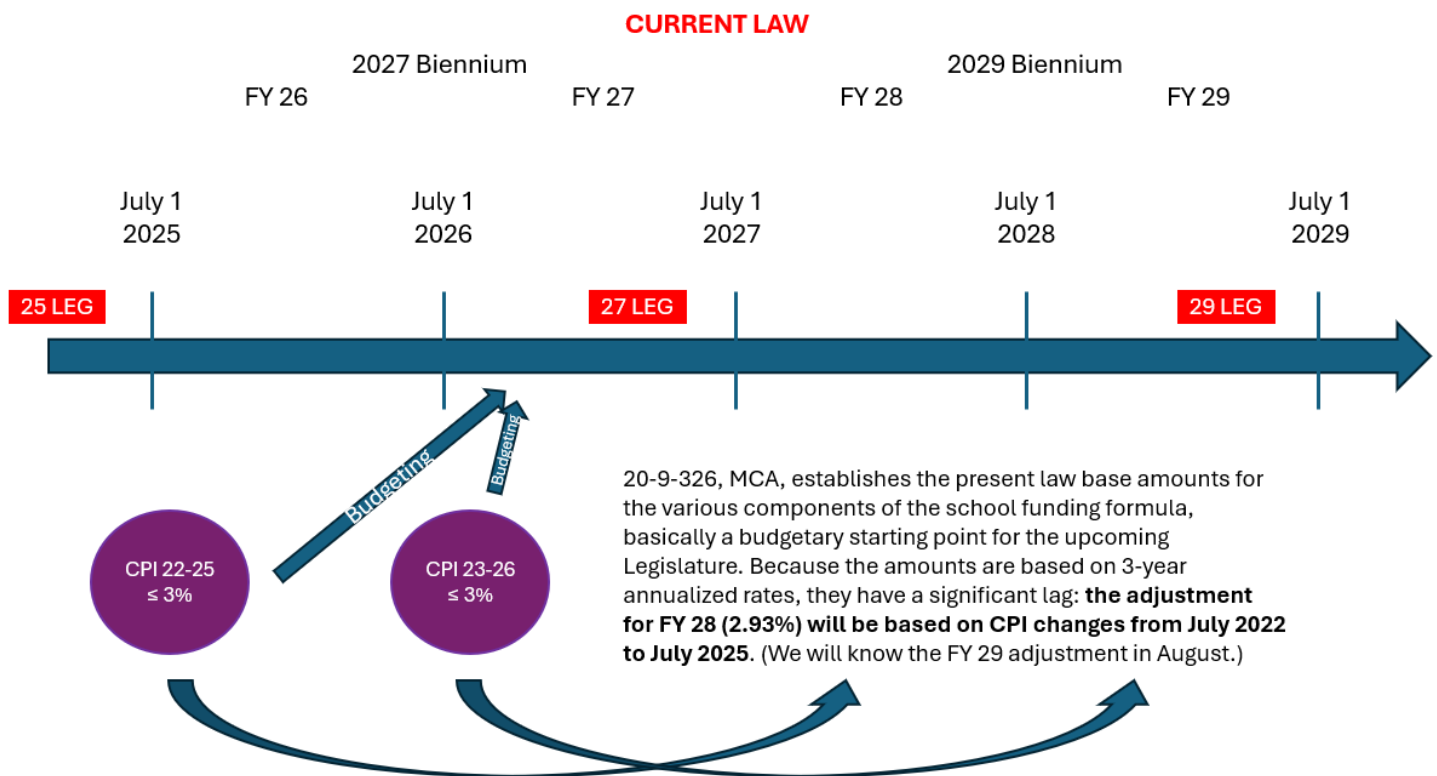
SCHOOL FUNDING INTERIM COMMISSION
PAD MCCrackEN, LSD, AND KATE JOHNSON, LFD – JULY 2026

At your June meeting, commission staff presented [a paper](#) with potential findings and recommendations on inflation, along with information and considerations. Based on Commission discussion/direction in June, staff developed this subsequent paper and provisional bill draft PD 09 – INFL for your July 20-21 meeting.

In June, the Commission expressed interest in modifying the existing inflationary adjustment for K-12 funding under 20-9-326, MCA, in the following ways:

1. Remove the 3% “cap” on the budgetary starting point (aka “present law base”)
2. Replace the Consumer Price Index (CPI-U) metric used in 20-9-326 with an inflation metric that better reflects school district General fund expenditures, perhaps an Employment Cost Index (ECI) or a composite metric using an ECI and 2-3 Producer Price Indices (PPI; utilities and office supplies) or CPI-U
3. Eliminate or minimize lags (possibly utilizing a forecast) and include a “true up” mechanism so that any estimates or lags in one fiscal year or biennium are incorporated into subsequent adjustments.

Figure 1. The graphic below depicts how 20-9-326 functions currently, highlighting the lag.



PRESENT LAW BASE IN 20-9-326 VS. THE COMPONENT AMOUNTS IN 20-9-306

It's important to remember that 20-9-326 only establishes the budget starting point and that the formula itself and school budgets are driven by statutory changes made by the Legislature in 20-9-306 through [HB 15](#) (aka "the school funding bill"). HB 15 simply strikes dollar amounts used in the previous biennium and inserts new ones for the upcoming biennium as shown below. (Bonus learning opportunity – that 50 cent decrease on line 23 is the decrement for high school ANB.)

19 (15) "Total per-ANB entitlement" means the district entitlement resulting from the following
20 calculations and using either the current year ANB or the 3-year ANB provided for in 20-9-311:
21 (a) for a high school district or a K-12 district high school program, a maximum rate of ~~\$7,840 for~~
22 ~~fiscal year 2024 and \$8,075~~ \$8,317 for fiscal year 2026 and \$8,567 for each succeeding fiscal year for the first
23 ANB, decreased at the rate of 50 cents per ANB for each additional ANB of the district up through 800 ANB,
24 with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB;

HB 15 increases the following components of the school district general fund formula:

- Basic entitlement
- Per-ANB entitlement
- Indian Ed for All payment
- Data for achievement payment
- American Indian achievement gap payment
- Quality educator and qualified staff payment
- Special education allocation

The At-risk payment is a separate line item in HB 2 and is adjusted through HB 2.

While the Legislature has typically provided adjustments as calculated under 20-9-326, it is not bound by those. HB 15 can be amended like any other bill.

It might help to think of this as follows:

- 20-9-326 dictates the starting point, but
- 20-9-306 is the ending point

The commission direction was to provide options for amending 20-9-326 as described on page 1, including a "true up" meaning that any lag or discrepancy from actual inflation would be made up for in

the next starting point. However, the [CAMPS proposal bill draft](#) suggests another possible path: a true up in which the component dollar amounts in 20-9-306 could be adjusted annually by the Superintendent of Public Instruction (see the proposal's 20-9-1016 inflation adjustment on page 37 of the bill draft).

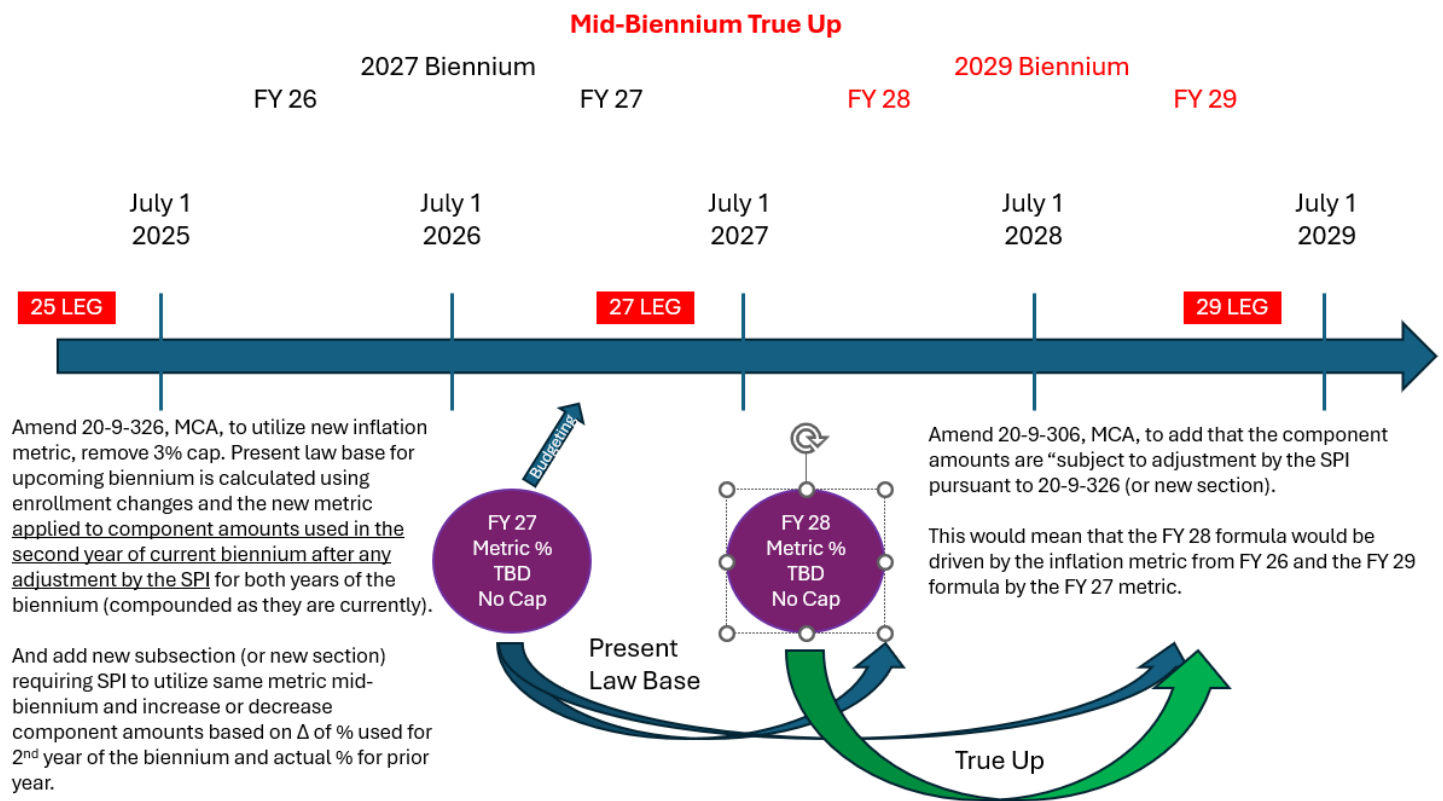
PROVISIONAL BILL DRAFT PD 09 - INFL

Provisional bill draft PD 09 – INFL borrows that design element from the CAMPS proposal and modifies it. 20-9-326 is still used for budgeting for the upcoming biennium, and as requested by the Commission in June, removes the 3% cap, uses a different metric for inflation, and reduces the lag by using the most recent available data for both years of the biennium. The draft further amends 20-9-326 to state that the funding component amounts must be adjusted for the second year of the biennium to reflect the most recent inflationary adjustment. This adjustment could be up or down. The result is that each year of the biennium is based on the actual inflationary changes from two years prior. Still a bit of a lag, but much less of one, and because the new inflation metrics are much less volatile than the CPI, the “ride” for districts and the state is smoother.

This “mid-biennium true-up” may seem like the Legislature is taking its hands off the budget steering wheel, but it’s important to remember that the actual dollar amounts distributed to districts as BASE Aid via the formula in the 2nd year of the biennium have always been unknown when HB 2 is passed (because the # of ANB for that 2nd year of the biennium is unknown). OPI, OBPP, and the LEG do their best to project what ANB will be and typically build a modest cushion into the BASE Aid appropriation in HB 2, but if the BASE Aid need exceeds the appropriation in the 2nd year of the biennium, [20-9-351, MCA](#), directs the SPI to request a supplemental appropriation.

Highlighted in the draft is the recently added reporting requirement. PD 09 – INFL does not modify the reporting requirement, but it will be worth considering how to ensure the report is aligned with any changes to the inflationary adjustment.

Figure 2. The following graphic depicts the approach in PD 09 - INFL.



ADDITIONAL CONSIDERATIONS AND OPTIONS

In the inflation memo presented to the commission in June 2026, commission staff presented information on price indices that could be considered as alternatives to using the CPI-U for inflation adjustments to the school funding formula. The graphs presented in this memo use a few select measures to create example market baskets for inflation adjustments; alternative sources of price indices are listed. All graphs are modeled without the 3% cap that exists in current statute, and the uncapped present law statutory applied inflation adjustment is also presented for comparison.

Figure 3. The example inflation adjustment below shows an inflation adjustment based on a weighted market basket of ECI and CPI-U applied to both years of a biennium (left column of each clustered column) and applied to both years of a biennium with a mid-biennium true up (right column of each clustered column). The inflation adjustment is assigned a 75% weight of the year-over-year change in ECI for total compensation of state and local government workers based on the data released in July preceding a legislative session and a 25% weight of the year-over-year inflation rate from the CPI-U data measured in the July preceding a legislative session. The year-over-year change in CPI-U (based on the July annual inflation rate) is included as the solid pink line and present law statutory inflation adjustment (uncapped) as the dashed red line for comparison. Please note that the x-axis of this graph (and all other

graphs on this document) displays state fiscal years, which begin on July 1. This means that the 12-month inflation rate is displayed by fiscal year, not the calendar year in which it is measured (i.e. the 12-month inflation rate for FY 2026 is the 12-month change in CPI-U measured between July 2024 and July 2025).

The mid-biennium true up mechanism would change the second year (odd-numbered fiscal year) of the biennium based on the year-over-year changes in ECI and CPI-U rates, published in July of the first fiscal year of the biennium. As an example, the inflation adjustment for the 2027 biennium (FY 2026 and 2027) would be calculated in using the year-over-year ECI rate (data published in July 2024, or the start of FY 2025) and the inflation rate measured by the change in the CPI-U from July 2023 to July 2024 (data published in August 2024, or FY 2025). The mid-biennium true up for FY 2027 would calculate the ECI and CPI-U rates published at the beginning of FY 2026 – the year-over-year ECI rate published in July 2025 and the CPI-U inflation rate published in August 2025 – and apply that inflation adjustment to FY 2027 budgets.

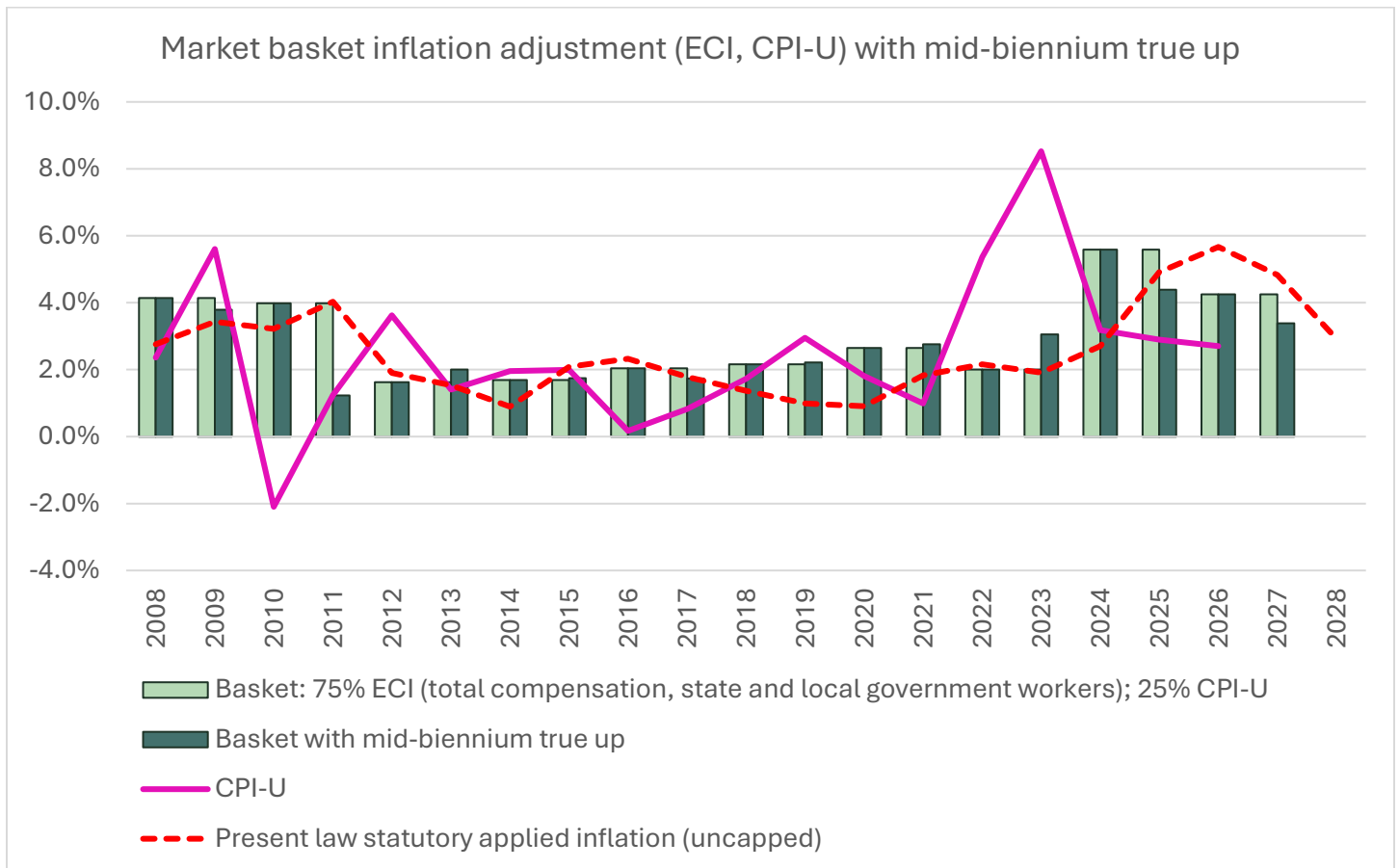
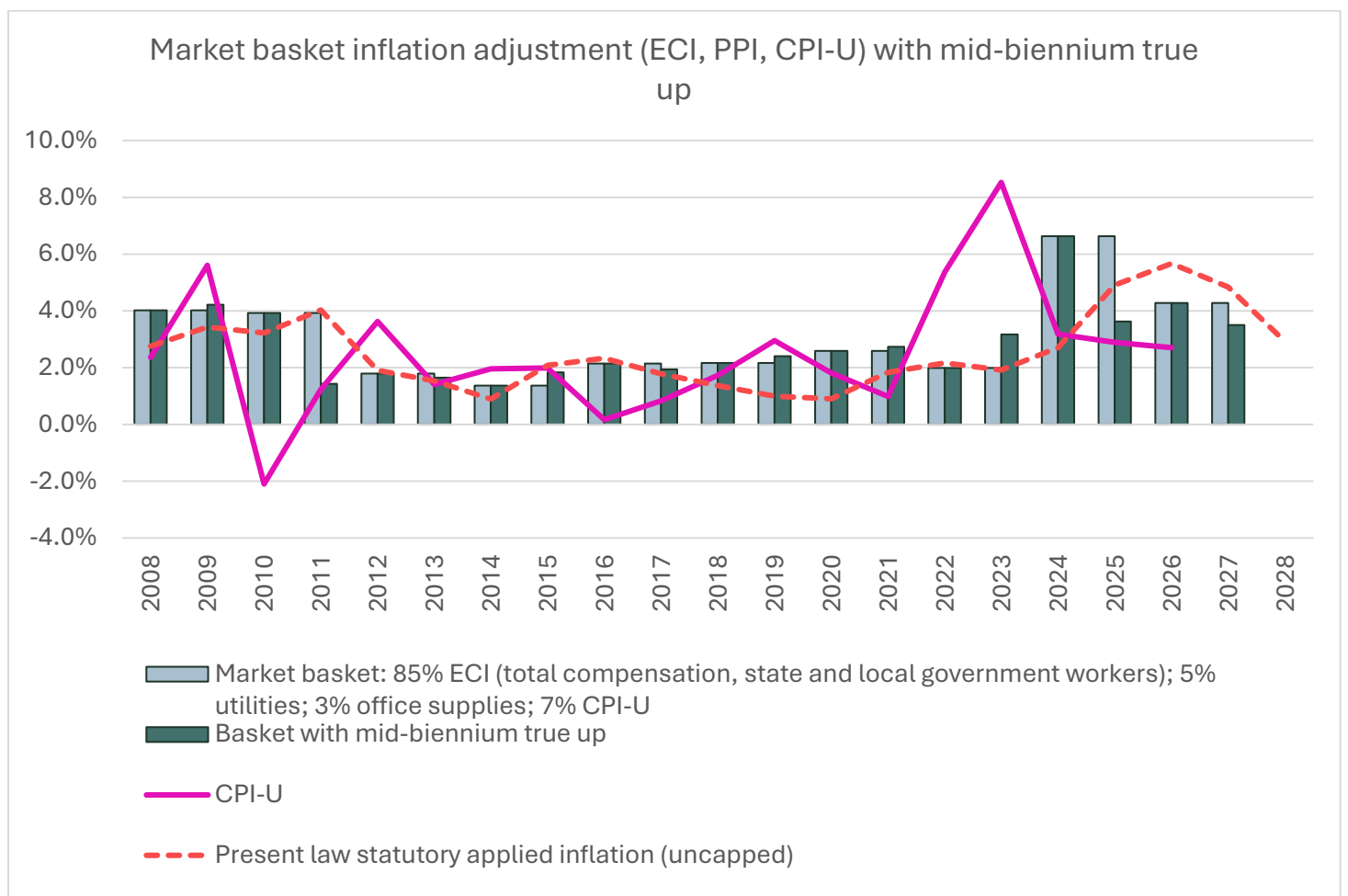


Figure 4. The example inflation adjustment below shows an inflation adjustment based on a weighted market basket of ECI, select producer price index (PPI) measures, and CPI-U applied to both years of a biennium (left column of each clustered column) and applied to both years of a biennium with a mid-biennium true up (right column of each clustered column). The inflation adjustment is assigned an 85% weight of the year-over-year change in ECI for total compensation of state and local government workers; a 5% weight of the year-over-year change in utilities; a 3% weight in the year-over-year change in PPI for office supplies; and a 7% weight of the year-over-year inflation rate from the CPI-U. All price index data used in the model are published in the summer preceding a legislative session, and the sources of the PPI data are noted in the June memo on inflation.



As noted in the inflation memo presented to the commission in June 2026, the [Federal Reserve Bank of Cleveland's Center for Inflation Research](#) publishes 1- to 30-year annualized inflation rate forecasts every month. This is one of several publicly available CPI forecasts; other publicly available forecasted CPI data sources include, but are not limited to:

- The Federal Reserve Bank of Philadelphia's quarterly surveys of macroeconomic forecasts, including annualized CPI rates in 1- to 10-year intervals, from its [Survey of Professional Forecasters](#).
- The Organization for Economic Cooperation and Development (OECD) [Economic Outlook](#) inflation forecasts. OECD provides forecasted data for the current and upcoming years – shorter forecast intervals than the forecasts produced by either branch of the Federal Reserve Bank.

Publicly available forecasts of ECI and PPI measures are more difficult to find than CPI forecasts. The Congressional Budget Office (CBO) produces [federal fiscal and calendar year economic projections](#), which include forecasts for CPI-U and the employment cost index for wages and salaries of private industry workers. CBO generally publishes projections twice annually – once in January or February, and again sometime between June and September – but sometimes publish one or three economic projections. Private organizations that produce economic forecasts publish CPI and other price indices forecasts; the degree to which those forecasts are available publicly and to what level of detail the forecast variables are modeled varies. Although CBO's forecast intervals are based on calendar or federal fiscal year projections, which do not completely align with the state fiscal year, the following graph models ECI and CPI-U forecasts published by the CBO because the data is publicly available.

Figure 5. The example inflation adjustment below shows an inflation adjustment based on a weighted market basket of forecasted ECI and CPI-U applied to both years of a biennium (left column of each clustered column) and applied to both years of a biennium with a mid-biennium true up (right column of each clustered column). The forecasted inflation adjustment is assigned an 75% weight of the federal fiscal year forecast ECI for wages and salaries of private industry workers and a 25% weight of the federal fiscal year forecast CPI-U. Forecasts of price indices used in the model are published in the summer preceding a legislative session (i.e. forecasted data used to model inflation adjustments for the 2027 biennium were published in June 2024). The true up for the second year (odd-numbered year) of the biennium is based on the year-over-year actual ECI of wages and salaries for private industry workers and CPI-U published by the Bureau of Labor Statistics at the beginning of the biennium (i.e. FY 2027 true up inflation adjustments would use ECI and CPI-U data published in the summer of 2025 – the start of FY 2026). Note that Figures 3 and 4 modeled the inflation adjustment using ECI of total compensation of state and local government workers, and differences will be seen between that measure and the forecast and actual ECI of wages and salaries of private industry workers, which CBO projects.

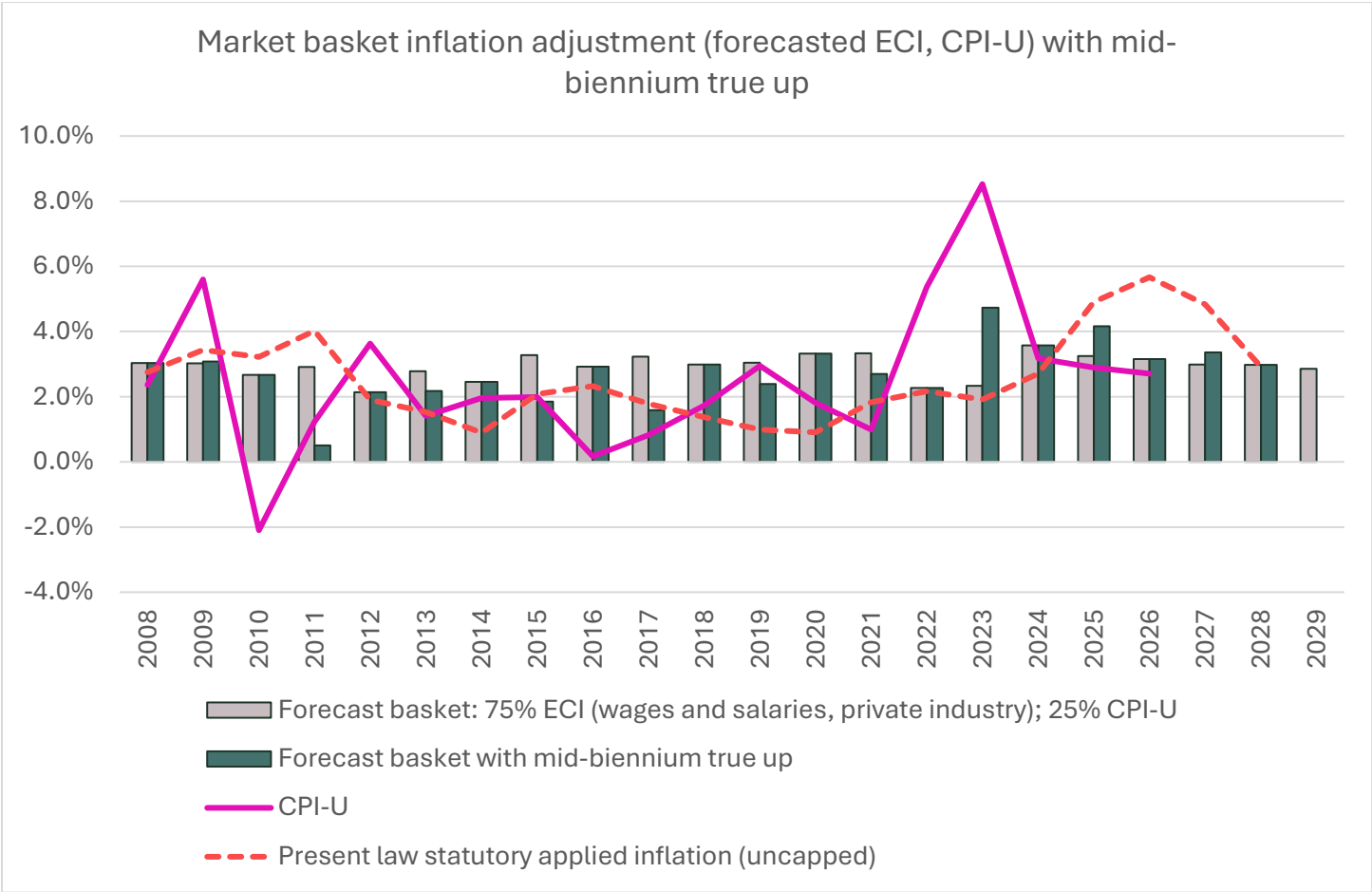


Figure 6. A comparison of the three inflation adjustments presented, including mid-biennium true up adjustments.

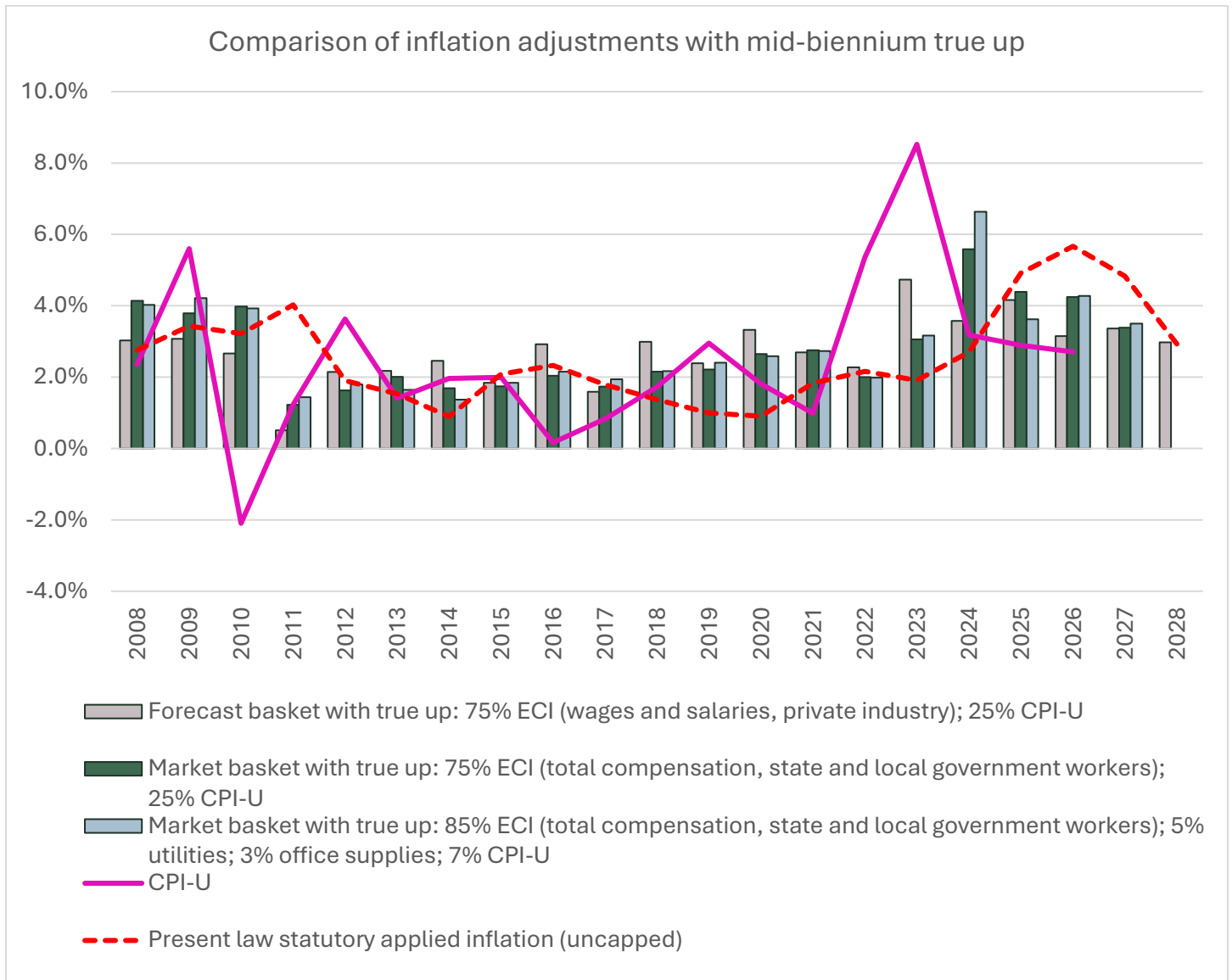


Figure 7. A comparison of the three inflation adjustments presented, including mid-biennium true up adjustments. Also included is the average annual inflation adjustment of each option.

Fiscal Year	Forecast basket: 75% ECI (wages and salaries, private industry); 25% CPI-U	Market basket: 75% ECI (total compensation, state and local government workers); 25% CPI-U	Market basket: 85% ECI (total compensation, state and local government workers); 5% utilities; 3% office supplies; 7% CPI-U
2006		3.3%	
2007		3.7%	
2008	3.0%	4.1%	4.0%
2009	3.1%	3.8%	4.2%
2010	2.7%	4.0%	3.9%
2011	0.5%	1.2%	1.4%
2012	2.1%	1.6%	1.8%
2013	2.2%	2.0%	1.6%
2014	2.5%	1.7%	1.4%
2015	1.8%	1.7%	1.8%
2016	2.9%	2.0%	2.1%
2017	1.6%	1.7%	1.9%
2018	3.0%	2.2%	2.2%
2019	2.4%	2.2%	2.4%
2020	3.3%	2.6%	2.6%
2021	2.7%	2.8%	2.7%
2022	2.3%	2.0%	2.0%
2023	4.7%	3.1%	3.2%
2024	3.6%	5.6%	6.6%
2025	4.2%	4.4%	3.6%
2026	3.2%	4.2%	4.3%
2027	3.4%	3.4%	3.5%
2028	3.0%		
Average Annual Inflation Adjustment	2.8%	2.9%	2.9%