**** BILL NO. ****

INTRODUCED BY ****

BY REQUEST OF THE ****

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING SCHOOL FUNDING LAWS TO MODIFY THE INFLATIONARY ADJUSTMENT; REMOVING THE 3% CAP ON THE INFLATIONARY ADJUSTMENT USED TO DETERMINE PRESENT LAW BASE; REVISING THE METRIC USED TO CALCULATE THE INFLATIONARY ADJUSTMENT; PROVIDING THAT SCHOOL FUNDING ENTITLEMENT AMOUNTS ARE RECALCULATED IN THE SECOND YEAR OF THE BIENNIUM TO REFLECT MORE CURRENT INFLATIONARY CHANGES; AMENDING SECTIONS 20-9-306 AND 20-9-326, MCA; AND PROVIDING AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 20-9-306, MCA, is amended to read:

"**20-9-306. Definitions.** As used in this title, unless the context clearly indicates otherwise and subject to adjustment under 20-9-326(3), the following definitions apply:

(1) "BASE" means base amount for school equity.

(2) "BASE aid" means:

(a) direct state aid for 44.7% of the basic entitlement and 44.7% of the total per-ANB entitlement for the general fund budget of a district;

(b) the total quality educator and qualified staff payment;

(c) the total at-risk student payment;

(d) the total Indian education for all payment;

(e) the total American Indian achievement gap payment;

(f) the total data-for-achievement payment;

(g) the total future ready payment; and

(h) the special education allowable cost payment.

(3) "BASE budget" means the minimum general fund budget of a district, which includes:

(a) subject to adjustment under 20-9-336, 80% of the basic entitlement and 80% of the total per-ANB entitlement;

(b) 100% of the following payments:

(i) the total quality educator and qualified staff payment;

(ii) the total at-risk student payment;

(iii) the total Indian education for all payment;

(iv) the total American Indian achievement gap payment;

(v) the total data-for-achievement payment; and

(vi) the total future ready payment; and

(c) 140% of the special education allowable cost payment.

(4) "BASE funding program" means the state program for the equitable distribution of the state's share of the cost of Montana's basic system of public elementary schools and high schools, through county equalization aid as provided in 20-9-331 and 20-9-333 and state equalization aid as provided in 20-9-343, in support of the general fund BASE budgets of districts and special education allowable cost payments as provided in 20-9-321.

(5) "BASE funding revenue requirement" means the amount calculated in support of the BASE budget of a district, which is funded by the countywide levy for BASE funding support under 20-9-362 and may be supplemented by guaranteed tax base aid if the county is eligible under the provisions of 20-9-366 through 20-9-369.

(6) "Basic entitlement" means:

(a) for each high school district:

(i) $364,401 for fiscal year 2026 and $375,333 for each succeeding fiscal year for school districts with an ANB of 800 or fewer; and

(ii) $364,401 for fiscal year 2026 and $375,333 for each succeeding fiscal year for school districts with an ANB of more than 800, plus $18,221 for fiscal year 2026 and $18,768 for each succeeding fiscal year for each additional 80 ANB over 800;

(b) for each elementary school district or K-12 district elementary program without an approved and accredited junior high school, 7th and 8th grade program, or middle school:

(i) $60,732 for fiscal year 2026 and $62,554 for each succeeding fiscal year for school districts or K-12 district elementary programs with an ANB of 250 or fewer; and

(ii) $60,732 for fiscal year 2026 and $62,554 for each succeeding fiscal year for school districts or K-12 district elementary programs with an ANB of more than 250, plus $3,037 for fiscal year 2026 and $3,128 for each succeeding fiscal year for each additional 25 ANB over 250;

(c) for each elementary school district or K-12 district elementary program with an approved and accredited junior high school, 7th and 8th grade program, or middle school:

(i) for the district's kindergarten through grade 6 elementary program:

(A) $60,732 for fiscal year 2026 and $62,554 for each succeeding fiscal year for school districts or K-12 district elementary programs with an ANB of 250 or fewer; and

(B) $60,732 for fiscal year 2026 and $62,554 for each succeeding fiscal year for school districts or K-12 district elementary programs with an ANB of more than 250, plus $3,037 for fiscal year 2026 and $3,128 for each succeeding fiscal year for each additional 25 ANB over 250; and

(ii) for the district's approved and accredited junior high school, 7th and 8th grade programs, or middle school:

(A) $121,466 for fiscal year 2026 and $125,110 for each succeeding fiscal year for school districts or K-12 district elementary programs with combined grades 7 and 8 with an ANB of 450 or fewer; and

(B) $121,466 for fiscal year 2026 and $125,110 for each succeeding fiscal year for school districts or K-12 district elementary programs with combined grades 7 and 8 with an ANB of more than 450, plus $6,073 for fiscal year 2026 and $6,255 for each succeeding fiscal year for each additional 45 ANB over 450.

(7) "Budget unit" means the unit for which the ANB of a district is calculated separately pursuant to 20-9-311.

(8) "Direct state aid" means 44.7% of the basic entitlement and 44.7% of the total per-ANB entitlement for the general fund budget of a district and funded with state and county equalization aid.

(9) (a) "Maximum general fund budget" means, except as provided in subsection (9)(b), a district's general fund budget amount calculated from the basic entitlement for the district, the total per-ANB entitlement for the district, the total quality educator and qualified staff payment, the total at-risk student payment, the total

Indian education for all payment, the total American Indian achievement gap payment, the total data-for-achievement payment, the total future ready payment, and the greater of the district's special education allowable cost payment multiplied by:

(i) 175%; or

(ii) the ratio, expressed as a percentage, of the district's special education allowable cost expenditures to the district's special education allowable cost payment for the fiscal year that is 2 years previous, with a maximum allowable ratio of 200%.

(b) (i) For a district that meets the legislative goal for base teacher pay under 20-9-324 and has territory within a county in which the median market value for residential properties is greater than 105% of the median county market value for residential properties in the state, the maximum general fund budget is calculated by multiplying the amount calculated in subsection (9)(a) by the percentage by which the county median market value exceeds the median county market value for residential properties in the state divided by 60 and rounded to the nearest hundredth of a percent.

(ii) The department of revenue shall calculate the median market values in subsection (9)(b)(i), excluding properties with a market value of $50,000 or less, in odd-numbered calendar years and report this information to the office of public instruction no later than December 1. The values reported must apply to the calculations in subsection (9)(b)(i) and the maximum general fund budgets of districts calculated under this subsection (9) in the 2 school fiscal years beginning the following July 1.

(iii) A district adopting a higher general fund budget under this subsection (9)(b) shall expend the additional budget authority under this subsection (9)(b) on:

(A) housing stipends for employees;

(B) construction or purchase of district-owned housing provided for employees;

(C) rental assistance, including subsidies or discounts on rents on housing for employees;

(D) down-payment assistance, including district provided funds to assist employees with the initial down payment on a primary residence;

(E) shared ownership of housing by the district and employee with an option for the employee to buy out the district's interest over time;

(F) district guaranteed or subsidized housing loans, including payment of discount points on housing loans secured by an employee;

(G) relocation assistance; or

(H) any other financial assistance to employees authorized by the Internal Revenue Code, the purpose of which is to improve employee access to affordable housing.

(10) "Over-BASE budget levy" means the district levy in support of any general fund amount budgeted that is above the BASE budget and within the general fund budget limits established in 20-9-308 and calculated as provided in 20-9-141.

(11) "State's share" means the state funding distributed to school districts in an equitable manner by the state to support the basic elementary and secondary school system as provided in Article X, section 1(3), of the Montana constitution, including:

(a) BASE aid for the school district general fund;

(b) retirement guaranteed tax base aid to the counties to support the countywide school retirement funds that is then distributed to school districts to support employer contributions to the retirement systems;

(c) major maintenance aid for the school district building reserve fund;

(d) transportation reimbursements for the school district transportation fund;

(e) debt service assistance for the school district debt service fund;

(f) technology funding for the school district technology acquisition and depreciation fund;

(g) career and technical education funding for the school district miscellaneous programs fund;

(h) advanced opportunity aid for the school district flexibility fund to help develop the full educational potential of each student;

(i) gifted and talented funding for the school district miscellaneous programs fund; and

(j) any other state funding provided by the legislature to support the basic elementary and secondary school system.

(12) "Total American Indian achievement gap payment" means the payment resulting from multiplying $249 for fiscal year 2026 and $256 for each succeeding fiscal year times the number of American Indian students enrolled in the district as provided in 20-9-330.

(13) "Total at-risk student payment" means the payment resulting from the distribution of any funds appropriated for the purposes of 20-9-328.

(14) "Total data-for-achievement payment" means the payment provided in 20-9-325 resulting from multiplying $24.29 for fiscal year 2026 and $25.02 for each succeeding fiscal year by the district's ANB calculated in accordance with 20-9-311.

(15) "Total future ready payment" means the payment provided in 20-9-381 resulting from adding:

(a) (i) for a high school district or K-12 school district, the product of 10% of the high school maximum per-ANB payment under this section for every graduate of the district in the school year 2 years prior who achieved the future ready level 1 goal as provided in 20-9-381; and

(ii) for an elementary school district or K-12 school district, the product of 10% of the elementary school maximum per-ANB payment under this section for every graduate counted under subsection (15)(a)(i) who was included in the district's spring enrollment count in the graduate's 8th grade year.

(b) (i) for a high school district or K-12 school district, the product of 20% of the high school maximum per-ANB payment under this section for every graduate of the district in the school year 2 years prior who achieved the future ready level 2 goal as provided in 20-9-381; and

(ii) for an elementary school district or K-12 school district, the product of 20% of the elementary school maximum per-ANB payment under this section for every graduate counted under subsection (15)(b)(i) who was included in the district's spring enrollment count in the graduate's 8th grade year.

(c) (i) for a high school district or K-12 school district, the product of 30% of the high school maximum per-ANB payment under this section for every graduate of the district in the school year 2 years prior who achieved the future ready level 3 goal as provided in 20-9-381; and

(ii) for an elementary school district or K-12 school district, the product of 30% of the elementary school maximum per-ANB payment under this section for every graduate counted under subsection (15)(c)(i) who was included in the district's spring enrollment count in the graduate's 8th grade year.

(16) "Total Indian education for all payment" means the payment resulting from multiplying $25.37 for fiscal year 2026 and $26.13 for each succeeding fiscal year times the ANB of the district or $100 for each district, whichever is greater, as provided for in 20-9-329.

(17) "Total per-ANB entitlement" means the district entitlement resulting from the following calculations and using either the current year ANB or the 3-year ANB provided for in 20-9-311:

(a) for a high school district or a K-12 district high school program, a maximum rate of $8,317 for fiscal year 2026 and $8,567 for each succeeding fiscal year for the first ANB, decreased at the rate of 50 cents per ANB for each additional ANB of the district up through 800 ANB, with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB;

(b) for an elementary school district or a K-12 district elementary program without an approved and accredited junior high school, 7th and 8th grade program, or middle school, a maximum rate of $6,496 for fiscal year 2026 and $6,691 for each succeeding fiscal year for the first ANB, decreased at the rate of 20 cents per ANB for each additional ANB of the district up through 1,000 ANB, with each ANB in excess of 1,000 receiving the same amount of entitlement as the 1,000th ANB; and

(c) for an elementary school district or a K-12 district elementary program with an approved and accredited junior high school, 7th and 8th grade program, or middle school, the sum of:

(i) a maximum rate of $6,496 for fiscal year 2026 and $6,691 for each succeeding fiscal year for the first ANB for kindergarten through grade 6, decreased at the rate of 20 cents per ANB for each additional ANB up through 1,000 ANB, with each ANB in excess of 1,000 receiving the same amount of entitlement as the 1,000th ANB; and

(ii) a maximum rate of $8,317 for fiscal year 2026 and $8,567 for each succeeding fiscal year for the first ANB for grades 7 and 8, decreased at the rate of 50 cents per ANB for each additional ANB for grades 7 and 8 up through 800 ANB, with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB.

(18) (a) "Total quality educator and qualified staff payment" means the payment resulting from multiplying $3,783 for fiscal year 2026 and $3,896 for each succeeding fiscal year by the number of full-time equivalent quality educators and qualified staff as provided in 20-9-327, or as provided in 20-9-324, for an educational entity meeting the legislative goal for competitive base pay of teachers, by two times the number of full-time equivalent quality educators and qualified staff as provided in 20-9-327.

(b) If an educational entity qualifies for enhanced quality educator and qualified staff payments under 20-9-324 in a fiscal year, the entity retains that qualification in subsequent years unless the district fails to qualify for 2 consecutive years. After 2 consecutive years of failure to qualify, an educational entity must reestablish eligibility before the enhanced quality educator and qualified staff payments under 20-9-324 resume for the educational entity.

(c) For a school district qualifying for the shared resource incentive under 20-9-383, the district must receive additions to the total quality educator and qualified staff payment as described in 20-9-383.

(d) The total quality educator and qualified staff payment for a district meeting the legislative goal for countywide resource sharing under 20-3-363 must have its total quality educator and qualified staff payment under subsection (18)(a) of this section increased by 50% as described in 20-3-363.

(19) "Total special education allocation" means the state payment distributed pursuant to 20-9-321 that is the greater of the amount resulting from multiplying $311.63 for fiscal year 2026 and $320.98 for each succeeding fiscal year by the statewide current year ANB or the amount of the previous year's total special education allocation."

Section 2. Section 20-9-326, MCA, is amended to read:

"**20-9-326. Annual inflation-related adjustments to ~~basic entitlements and per-ANB entitlements~~ components of the school district general fund formula -- reporting.** (1) In preparing and submitting an agency budget pursuant to 17-7-111 and 17-7-112, the superintendent of public instruction shall determine the ~~inflation factor~~ inflationary adjustment for the basic and per-ANB entitlements, the data-for-achievement payment, the per-ANB amount used to calculate the total special education allocation in 20-9-306, and the general fund payments in 20-9-327 through 20-9-330 in each fiscal year of the ensuing biennium. ~~The inflation factor is calculated as follows:~~

~~(a) for the first year of the biennium, divide the consumer price index for July 1 of the prior calendar year by the consumer price index for July 1 of the calendar year 3 years prior to the prior calendar year and raise the resulting ratio to the power of one-third; and~~

~~(b) for the second year of the biennium, divide the consumer price index for July 1 of the current calendar year by the consumer price index for July 1 of the calendar year 3 years prior to the current calendar year and raise the resulting ratio to the power of one-third.~~

(2) (a) The present law base for the entitlements referenced in subsection (1) of this section, calculated under Title 17, chapter 7, part 1, must consist of any enrollment increases or decreases plus the ~~inflation factor calculated pursuant to this section, not to exceed 3% in each year,~~ inflationary adjustment applied to both years of the biennium.

(b) This subsection (2) does not limit the superintendent or the governor from recommending, or limit the legislature from adopting, inflationary adjustments other than those calculated in this section.

(3) (a) No later than February 1 of each even-numbered year, the superintendent shall determine the inflationary adjustment for the ensuing school fiscal year.

(b) The superintendent shall recalculate the entitlement amounts listed in subsection (1) for the ensuing school fiscal year by the inflationary adjustment determined in subsection (x)(a) and the adjusted entitlement amounts must be used in determining school district budgets for the ensuing school fiscal year.

~~(3)~~(4) Beginning in fiscal year 2026 and then every even-numbered fiscal year thereafter, the superintendent of public instruction shall provide a report no later than September 1 to the education interim budget committee and the education interim committee and no later than December 31 to the legislative finance committee, in accordance with 5-11-210, regarding the educational relevance in the implementation of this section. The report must include:

(a) the increase in funding over the prior year on a per-ANB basis for the BASE aid elements represented in [20-9-306(2)(a), (2)(c) through (2)(g), and (2)(i)] budgeted to be provided to school districts in the current fiscal year and provided to school districts in the preceding 5 fiscal years, which must be reported in both dollar and percentage amounts, with the six percentages rounded to the nearest one hundredth;

(b) the percentage change from July of the preceding year to July of the applicable year in the consumer price index for the current year and the preceding 5 years, with the six percentages rounded to the nearest one hundredth; and

(c) a cumulative numerical comparison of the difference between the percentages reported in subsections (3)(a) and (3)(b), rounded to the nearest one hundredth.

~~(4)~~(5) For the purposes of this section, "~~consumer price index~~ inflationary adjustment" means ~~the consumer price index, U.S. city average, all urban consumers, for all items, using the 1982-84 base of 100,~~ a composite annual percent change calculated based on the following data from the most recent year available using:

(a) a weight of 75% of the June 12-month percent change in the employment cost index, total compensation, state and local government workers, not seasonally adjusted, as published by the bureau of labor statistics of the U.S. department of labor; and

(b) a weight of 25% of the July 12-month percent change in the consumer price index, U.S. city average, all urban consumers, for all items, as published by the bureau of labor statistics of the U.S. department of labor."

NEW SECTION. **Section 3. Applicability.** [This act] applies to:

(1) the state budgeting process for state budgets for bienniums beginning on or after July 1, 2029; and

(2) school budgets and distributions of BASE aid for fiscal years beginning on or after July 1, 2029.

- END -