EDUCATION COMMISSION OF THE STATES
Your education policy team.

Response to information request

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This response was prepared for Anna Gerstle, Colorado Legislative Council

Your Question:

You requested information on state school finance formulas, specifically cost of living and inflation adjustments.

Our Response:

According to our findings, most states do not include cost of living or inflation adjustments in the state law regarding school funding formulas. Below are some state examples on state cost of living – including state, local and retirement policies – and inflation adjustments in state school finance formulas.

Cost of Living Adjustments

Education Commission of the States found at least two states — **Alabama** and **Washington** — that include cost-of-living adjustments in state law and funding.

In **Alabama**, cost-of-living adjustments are included in Title 16, Chapter 22 budget allocations to the board of education, the Alabama Institute for Deaf and Blind, the youth services school district, the Alabama School of Fine Arts, and the Alabama School of Mathematics and Science. The most recent adjustment (Section 16-22-13.9) allocated a 4% salary increase to certified educators.

In the 2000 general election, **Washington** voters approved Initiative Measure No. 732, which included increasing school district employee salaries to accommodate cost-of-living. As a result, the state is required to provide fair and reasonable cost-of-living increases, to ensure Washington's ability to attract and retain quality teachers. The cost-of-living adjustment, otherwise known as the inflationary increase, is calculated by applying the yearly increase in the U.S. Department of Commerce's inflationary adjustment index to the teacher and school district employee salary base in the state funding formula. School districts must distribute the state allocated salary adjustments in accordance with local collective bargaining agreements and compensation policies. At the end of each school year, school districts must supply the superintendent of public instruction with certification that inflationary increases were spent on salaries and salary-related benefits. In addition, the salary adjustment must be included in the salary base to determine future increases.

Local Adjustments

Some states do not oversee state cost-of-living adjustments but do allow school districts to make such determinations based on local needs and resources. For example, **Florida** allows local education authorities to determine the cost-of-living adjustments in educator salaries. Specifically, a district school board is authorized to provide cost-of-living adjustments provided the adjustment does not discriminate and does not exceed 50% of the annual adjustment provided to instructional personnel rated as effective.

Retirement Adjustments

State teacher retirements systems, which include public school teachers that do not participate in the federal social security program, also may address cost-of-living adjustments.

In **Connecticut**, the teachers' retirement system members are eligible to annual cost of living adjustments and receive payment in either January or July, depending on the member's retirement date. Specifically, cost-of-living adjustments are determined and calculated based on the original membership year:

- For members retired prior to September 1992, adjustments are calculated based on the National Consumer Price Index with a 3% to 5% annual increase.
- For members retired between September 1992 and July 2007, adjustments are calculated based on the cost-of-living adjustments granted by the Social Security Administration with a maximum increase of 6%.
- For members retired after July 2007, adjustments are calculated based on the cost-of-living adjustments granted by the Social Security Administration and the retirement fund's investment performance with a maximum increase of 5%.

Additional state retirement plan examples include **California**, **Georgia**, **Kentucky** and **New York**. The National Association of State Retirement Administrators tracks changes to state retirement plans, including teacher retirement plans and cost-of-living adjustments up to 2013.

Inflation Adjustments

According to the 50-State Comparison: K-12 and Special Education Funding, last updated in October 2021, two states – **California** and **Massachusetts** – have inflation adjustments in their funding formulas.

In **California**, depending on school enrollment, grades served, and minimum employee thresholds, each school receives a flat amount defined in statute and adjusted for inflation, ranging from $52,925 to $707,100. In addition, special education funding provided $715 per unit of average daily membership for school year 2021-22 with inflationary adjustments for subsequent years.

Similarly, **Massachusetts** special education instructional and transportation costs are reimbursed at 75% of approved costs for students with costs above $45,793 in fiscal year 2020 and indexed for inflation afterwards.

At least one state introduced legislation on this topic in 2022. **Minnesota** considered S.F. 3194, which would have linked the general education basic formula allowance to the rate of inflation. For 2024 and later years, the formula allowance for each would have been calculated by the 2023 allowance times the inflationary increase, as determined by the federal change for consumers. The bill was not enacted.

In addition, the **Tennessee** Commission on Children and Youth's 2022 report to the legislature recommends inflation adjustments for the state's education formula. We were unable to find any current legislation based on these recommendations.