

AVOIDING THE FISCAL CLIFF

Fixing the Inflation Calculation

The Chapter 70 aid amounts in the FY25 House 2 budget do not account for the actual costs of recent inflation because of a flaw in the way inflation adjustments are calculated in Chapter 70. Fixing that flaw would increase Chapter 70 by about \$217 million. Inflation has, of course, been very high in recent years.

The inflation rate for the time period that determined the FY24 Chapter 70 inflation adjustment was 8.01% and for FY23 it was 7.08%. But the law caps the annual inflation adjustment of the foundation budget at 4.5%. As a result, districts did not receive funds to cover a significant portion of inflation that they had to pay for in expenses.

The way the Chapter 70 formula originally worked, that would not be a long-term problem because the lost inflation would automatically be added back to the foundation budget in the following year. But a technical change made almost a decade after the law was passed inadvertently changed that. Now when the cap reduces aid below the level needed to keep pace with inflation, that reduction is locked in forever and reduces future aid.

A simple fix that maintains the 4.5% cap but makes sure that the formula makes up for lost inflation would solve the problem. That would increase Chapter 70 aid by \$217 million, with additional under-inflation “catch-ups” in future years. It is important to make a permanent change in the law so that all of the aid lost is eventually made up. That is necessary to allow the Commonwealth to meet the real-dollar targets in the Student Opportunity Act.

To implement the change, the legislature could use an updated version of the language in the original Education Reform Act along these lines: *The dollar amounts specified in this subsection, other than those for employee benefits and fixed charges, shall be adjusted for inflation by multiplying the amounts for fiscal year two thousand twenty-one and subsequent years by the ratio of the value of the implicit price deflator for state and local government consumption expenditures and gross investment in the second quarter of the prior fiscal year to the value of that same deflator in the third quarter of two thousand eighteen. The annual 4.5% cap would be preserved, as would the separate inflation adjustment for employee benefits and fixed charges.*

We can provide data on how these changes would affect specific districts.

